

INTERNATIONAL NEWS

Yugoslav leaders' crisis summit today

By Laura Silber in Belgrade

YUGOSLAVIA'S leaders meet today for a crisis summit, in an attempt to curtail widespread ethnic and nationalist violence between Serbs and Croatians in Croatia.

The meeting is also scheduled to consider joint efforts to stanch the country's accelerating economic collapse.

The state presidency, the country's eight-member collective leadership, and the presidents of the six Yugoslav republics will attempt to reach an accord as ethnic violence threatens to spill over into other parts of the country.

But sharp divisions remain between Serbia and its allies on one side and break-away Croatia and Slovenia on the other.

Over the weekend the leaders of Slovenia and Croatia, along with the cen-

tral republic of Bosnia-Herzegovina, agreed to set up a joint commission to overcome trade blockades. The three prime ministers said it was necessary to "connect the broken threads of economic co-operation to enable the free movement of goods and citizens across the republic borders".

The weekend meeting was called by Bosnia, which fears an explosion of violence amongst its ethnically mixed population of Serbs, Croats and Slavic Moslems.

An awareness of the sharply deteriorating economic situation, exacerbated by mounting ethnic conflicts, hangs over the agenda of today's talks in the town of Ohrid, Macedonia. General Veljko Kadijevic, federal defence minister, said at the weekend the army had given Yugoslavia's leaders an ultima-

tum to reach a political solution by August 15.

However, the leaders of Serbia and Croatia, the largest republics, have only succeeded in heightening ethnic tensions in an effort to rally mass support. Ethnic-related clashes are becoming a daily occurrence.

Three Croat policemen were killed by a lone gunman in the Croatian town of Daruvar, some 50km east of the republic's capital Zagreb, on Saturday night.

Croat police said yesterday a man was shot and killed from a moving car while sitting in his house. Police also reported a man was shot after firing on police guards at a roadblock. Both these incidents occurred in the Slavonia region of eastern Croatia. In Slavonia bodies are rotting in the fields. We can't pick them up because of the danger

of being fired on by Serbian guerrillas," a Croatian minister said.

During a visit yesterday to Osijek, the regional capital of Slavonia, Mr Franjo Tudjman, Croatian president, reiterated charges that Serbia, under President Slobodan Milosevic, was backing terrorist attacks in Croatia. Mr Tudjman said Croatia would be mobilised to resist "terrorist actions" by the Chetniks, radical Serbian nationalists.

Today's summit of Yugoslav leaders follows the state presidency's order last week to the federal army to withdraw from Slovenia. The withdrawal paves the way for the Alpine republic to secede. But fearing isolation in a rump Yugoslavia, Croatia has also appealed to the presidency, which is the commander-in-chief of the federal army, for the military to withdraw there too.



Croatian defence force members flash victory signs from a truck at the weekend. An hour later they were attacked by Serbian nationalists, but no one was hurt

Cresson's popularity still plummeting in opinion polls

By William Dawkins in Paris

FRESH evidence of the declining popularity of Mrs Edith Cresson, France's prime minister, emerged over the weekend with an opinion poll giving her the one of the worst results of any French premier in recent history.

The survey, by Ifop for Le Journal du Dimanche, confirms that Mrs Cresson's poor public image, hit by France's simmering social problems and the impression that she is sometimes not on easy terms with members of her government, is dragging down that of President Francois Mitterrand.

The popularity of Mr Mitterrand, who appointed Mrs Cresson to the Matignon in May, has hit its lowest point since November 1985, six months before the Socialists lost the 1986 general election.

The proportion of voters satisfied with Mrs Cresson's performance more than doubled over the past two months, from 18 per cent in June to 37 per cent in July, while her popularity rating has fallen over the same period by 7 percentage points to 18 per cent.

Such a low rating is almost unprecedented among prime ministers in the 83-year life of France's Fifth Republic, according to Mr Jean-Luc Parodi, research director for the national political sciences foundation.

Meanwhile, the proportion satisfied with Mr Mitterrand's performance has slipped by 7 points to 33 per cent from June to July, while his dissatisfaction rating has risen by 6 per cent to 46 per cent.

Common reasons for disillu-

sion cited by the 1,763 people interviewed early this month were rising unemployment and a poor quality of life.

However, Mrs Cresson has attracted criticism in recent weeks for her outspoken views on Japan and how to tackle immigration.

The government has also had to face another round of urban riots, and to make unpopular decisions to curb public spending.

There is also evidence that Mrs Cresson is getting less support from her own party. According to the poll, only 34 per cent of Socialist sympathisers interviewed had confidence in the premier, 12 points down on last month, while 25 per cent were dissatisfied with her.

The decree said private investment in the companies, aimed at eliminating the

Venezuela approves big cuts in taxation rates

THE Venezuelan congress approved at the weekend big reductions in corporate and individual tax rates, writes Joe Mann in Caracas.

In one of its last acts before a summer recess, the congress lowered the maximum corporate tax rate from 50 per cent on operating profits to 30 per cent, reduced maximum rates for mining activities and areas of the petroleum industry, and set up an annual inflationary

adjustment for corporations. Both Venezuelan and foreign investors have complained for several years about the country's high corporate tax rates.

The new rate structure should open the door to investments which were placed on hold pending tax reform.

The congress also raised the income level at which individuals are required to file tax returns, from \$813 a month to \$5,064 (\$23,100) a month.

The decree said private investment in the companies, aimed at eliminating the

monopoly of state electricity companies operating outside Lima as well as expanding and improving their installations, was in the national interest.

The decree is similar to recent ones in which state-run companies have been authorised to seek private investors for majority participation.

PERU'S state-run electricity company has been authorised to sell to private investors its shares in seven regional electrical companies, an official decree said, Reuter reports from Lima.

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"We decided we should take the lead in the fight against subsidies or dumping policies [and] that we should adopt uniform legislation and mechanisms to create an atmosphere in which our countries utilise the same procedures,"

Mr Domingo Cavalli, Argentine economy minister, said after a one-day meeting with counterparts from Uruguay, Brazil and Paraguay.

"Straight comparisons can distort the debate," says Mr Francisco Escalante, a Tijuana business consultant. "Those who talk about exploitation make the point that someone who makes \$1.20 an hour here could get five times that much in the US. The point is that \$1.20 an hour is more than

France scraps plan for mobile missile

By William Dawkins

THE French government has scrapped a Ffr30bn (£3.01bn) plan for a road-borne mobile nuclear missile, which was to have come into service towards the end of the century.

The decision, confirmed by officials yesterday, was taken earlier this month at a meeting of the government's defence council.

It is in line with President Francois Mitterrand's long-standing opposition to the S-45 missile scheme, on the grounds that nuclear weapons travelling by road during international tension might create public panic.

However, the Defence Ministry had kept its options open on the 12-year project, to provide information on alternatives for replacing France's current generation of S3 long-range land-borne missiles stored in 18 silos in southern France.

The decision comes as the government attempts to conclude a long-running debate on which leg of its nuclear triad should be eliminated. France cannot afford to replace all three of its nuclear

deterrants, but needs to decide which ones to keep in time for the next generation of weapons to come into service by the end of the century.

The government has already decided to update and maintain its submarine-launched ballistic missiles. So the choice is between whether to update the land-based S3s, or replace the medium-range ASMP nuclear missile carried by the Mirage IV aircraft with an ASMP long-range version which could be carried by the new Rafale multi-role jet.

One factor that could influence thinking is Britain's choice of replacement for the Royal Air Force's ageing free-fall nuclear bombs, which will be obsolete by the end of the decade. The ASMP is one of the candidates, against two US rivals.

Another possibility being studied by the French Defence Ministry, officials say, is to adapt France's generation of submarine-launched missile - the MS - for use in the S3 silos.

This could cost half as much as the abandoned mobile missile project.

Eureka's match-making prowess silences sceptics Andrew Hill on a European research programme

GRETA, Clair and Astrid owe much to the US Strategic Defense Initiative, without if they might not be here at all.

The trio are acronyms for projects set up recently as part of the Eureka pan-European research programme - originally launched by French President Francois Mitterrand as a response to President Ronald Reagan's "Star Wars" research, which had become military godparent to a broad of civil research projects in the US.

Eureka, which celebrated its fifth anniversary last month, is restricted to civilian research and aims to improve the competitiveness and productivity of European businesses by encouraging cross-border co-operation.

Mr Kim Ruberg, Eureka's information director, says: "We don't go to industry and say we want this or that - industry comes to us and say: 'We have an idea, is it suitable and can you find a partner?'" The tiny Brussels secretariat acts as a sort of central dating agency, matching partners from among 30 members, including the 12 EC countries and the European Commission.

An assessment of the first five years of Eureka by a panel of industrialists, academics and civil servants picked out the flexibility of the programme's approach as one of its principal advantages. But there are also difficulties.

• Funding. Participants complain that although applying for and obtaining Eureka approval is fairly simple, when it comes to arranging funding from a number of different governments, projects are often bogged down in the intricacies of national bureaucracy.

Mr Herman van der Anwerker, research manager of LMS International, a Belgian company, oversaw a small Eureka



public relations exercise, but the Eureka approach has fostered about 470 active projects, with a total budget of Ecu1.18bn (£5.7bn). These include initiatives such as the Joint European Submicron Silicon (Jesis) semi-conductor research programme, which may have cost more than Ecu3.5bn by the end of its seven-year span in 1996, and minnows like a 30-month Ecu1.54m project to find a new man-made alternative to leather shoe-uppers.

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Mr Herman van der Anwerker, research manager of LMS International, a Belgian company, oversaw a small Eureka

project developing techniques to analyse noise problems in cars and other vehicles. The project, one of Eureka's first, was successfully completed in February 1990, in conjunction with the Catholic University of Leuven and Porsche of Germany.

But the more complicated funding arrangements of LMS's latest Eureka venture - developing mechanical vibration testing equipment - have delayed the project.

"It would be more convenient if the financial part of the project was linked to the material part," says Mr van der Anwerker. He advocates a more uniform approach from funding bodies, in line with the assessment panel's wish that governments should synchronise financial support for individual projects.

• Relationship with EC projects. Brussels is often criticised for leaving technology policy in the hands of the Commission's technology mandarins, rather than listening to industry and users.

Mr Filippo Maria Pandolfi, EC commissioner responsible for research, seems to have initiated a change of strategy. In trying to salvage something from the mess of EC policy on high-definition television standards, for example, he is aiming for a parallel legislative and consultative approach.

But does such a policy risk treading on Eureka's territory?

Integration pledge for Latin America

By Rebecca Doublin

in Mexico City

LATIN AMERICA took a leap

towards regional integration and co-operation at the weekend, during the first Ibero-American summit.

Twenty-three heads of state, including those of Spain and Portugal, attended the two-day summit in Guadalajara, in the closing declaration of the 21 Latin American nations reaffirmed a commitment to international law and promised to promote human rights and eradicate the "scourge of misery" by the end of the century.

The leaders also proposed a common front in the drug war and the creation of a fund for indigenous people. An Ibero-American Chamber of Commerce designed to facilitate trade relations in the region was set up.

The summit's theme was integration, although President Alberto Lacalle of Uruguay said "it would be unrealistic for trade barriers to fall from one day to the next".

Appealing to international finance institutions to be "less myopic" in their assessment of economic advances in Latin America, Mr Lacalle appealed to creditors to recognise the long-term efforts being made by the region's fledgling democracies.

Although there was fear the summit would become a forum to pressure Mr Fidel Castro for changes in Cuba's communist regime, the final declaration emphasised respect for individual sovereignty and political pluralism.

Mr Joao Baena, head of the Organisation of American States, said its members had to determine Cuba's readmission to the OAS. The country was expelled in 1963.

Spain and Portugal stressed their role as natural bridges for Latin America's eventual entry to the European market; Spain pledged \$7bn of low interest credits and a further \$7bn for investment schemes in the region.

Mr Gabriel Garcia Marquez, Nobel literature laureate, urged the creation of a Latin American ecological alliance.

• Economy ministers from four South American countries meeting in Uruguay have agreed to work out a common set of rules to combat dumping and the sale of subsidised goods by non-members of their planned common market, Reuter reports from Montevideo.

"We decided we should take the lead in the fight against subsidies or dumping policies [and] that we should adopt uniform legislation and mechanisms to create an atmosphere in which our countries utilise the same procedures,"

Mr Domingo Cavalli, Argentine economy minister, said after a one-day meeting with counterparts from Uruguay, Brazil and Paraguay.

"Straight comparisons can distort the debate," says Mr Francisco Escalante, a Tijuana business consultant. "Those who talk about exploitation make the point that someone who makes \$1.20 an hour here could get five times that much in the US. The point is that \$1.20 an hour is more than

Ecological fears behind Mexican border boom

Bernd Debusmann of Reuter on the problems of industrialisation

twice the minimum wage in Mexico City."

Many maquiladora plants provide cash bonuses for regular attendance and grocery vouchers for those who work for them for more than three months. Company cafeterias often provide subsidised meals.

Experts on both sides of the border say that apart from low wages, lax pollution controls allow foreign companies to cut production costs and increase profits.

Factories in Tijuana now assemble one out of every four television sets sold in the US.

On average, Japanese companies ship nine TV sets a minute across the border. More than half the 100 biggest US companies operate assembly plants in Mexico, taking advantage of cheap labour and exemption from most duties.

As a result, Tijuana, the largest city on the border, is enjoying an economic boom and so are a string of other towns along the 3,000-metre frontier. Wages are higher and unemployment much lower than elsewhere in Mexico.

The plants now employ about half a million people, a substantial number in a country with rampant unemployment.

Yet the rapid industrialisation of the border region has prompted fierce criticism in both Mexico and the US.

Environmentalists say the border is being turned into a toxic waste dump. US labour leaders say American jobs are being stolen. US protectionists complain that Japan is using the border as a backdoor to the US. The arguments used in the debate are certain to shape negotiations on a free trade agreement between the US, Canada and Mexico which began last month.

Known as maquiladoras in Mexico and in-bond plants in the US, the factories operate under a system which allows them to import raw materials and components duty-free from the US. The finished products are re-exported to the US, which charges tariffs only on the value added in the assembly plant.

Conceived in the mid-1980s, the explosive growth of the maquiladora industry - 450 plants in 1974, 1,100 in 1983, and 1,800 by June 1991 - is based on the huge differential in wages between the US and Mexico.

"Meaning as a safety cordon in case of an accident, the green zone would have required 30,000 people to abandon their homes and move elsewhere. The world would be evacuated if resisted saying the plant should move instead.

"In the worst-case scenario, an accident at the plant could lead to a disaster on the scale of Bhopal," says Mr Domingo Gonzalez of the Washington-based Coalition for Justice in the Maquiladoras.

In the Indian city of Bhopal, a cloud of poisonous gas leaking from a US-owned chemical plant killed more than 2,200 people six years ago. More than 300,000 have suffered long-term health problems.

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INTERNATIONAL NEWS

'New strategic relationship' with US hailed

Bush pledges aid for Turkey

By Mark Nicholson in Istanbul

PRESIDENT George Bush wrapped up his two-day trip to Turkey last night by pledging a substantial increase in US military aid and by making a strong appeal for Greece and Turkey to resolve their differences and reach a settlement over Cyprus.

Mr Bush, speaking at a dinner in the historic Dolmabahce Palace, also offered strong US support for Turkey's stalled bid for membership of the EC, saying that 10 years of "free government and free enterprise" had made Turkey the "rising star of Europe".

Mr Bush added: "There should be no question that Turkey deserves entry into the European Union, and Turkey can count on America's support."

Mr Bush's remarks follow a cordial and largely incident-free trip during which, though it leaned as heavy on sightseeing as specific initiatives, both leaders have spoken of a "new strategic relationship" developing out of their close contact during the Gulf crisis.

The personal chemistry between the two leaders - who consulted almost daily by phone during the Gulf war - was evident yesterday in the relaxed manner in which Mr and Mrs Bush were escorted by their hosts through Istanbul's mosques and palaces and on a steamer down the Bosphorus.

Nevertheless, both sides have sought to flesh out their broad talk of a "new" strategic relationship by setting up formal biannual meetings between officials at under-secretary level, overseeing a host of bilateral groups to meet yearly in an effort to expand scientific, cultural, educational and commercial ties.

However, Mr Bush stressed Turkey's traditional strategic importance as a "bulwark of Nato's southern flank" pledging to increase US military aid in 1992 to \$25m. The sum is a substantial rise on this year's expected \$50m of formal military aid, although total US contributions to Turkey's defence came overall to a mere \$300m last year, with the inclusion of what US officials describe as several "off budget" items, including delivery of a contingent of F4 aircraft.

Banks 'rush to lend money to Kuwait'

By Mark Nicholson in Istanbul

Kuwait says international banks are clamouring to offer it money following its decision to borrow billions of dollars on world capital markets to finance post-Gulf war reconstruction, Reuter reports from Kuwait.

Kuwait did not want to borrow the full \$30bn authorised by the emir last week, finance minister Nasser al-Rodhan was quoted as saying in the al-Watan newspaper yesterday.

He put named borrowing at less than \$27bn (\$22bn).

"Many offers have come to us from big financial institutions and at very attractive rates of interest and lower than those offered to other corporations and countries," he said.

Kuwait, its oil industry left in tatters by the Iraqis, last week put a ceiling of KD10bn on its post-war borrowing. "We set this ceiling so that we need not resort to amending the law [to authorise more] if the need arose. But the need will definitely be lower than the ceiling," Mr Rodhan said.

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Turkish President Turgut Ozal (right) points out the sights of Istanbul to US President George Bush yesterday, the second day of Mr Bush's visit

The rise in aid raises questions about the US's traditional 7-to-10 ratio in military assistance to Greece and Turkey respectively. Mr Bush, who also promised Greece increased military assistance during his earlier stop in Athens, refused yesterday to comment on the ratio, though US officials privately concede that it has quietly been forgotten.

Mr Bush, following a similar appeal in Athens, made a point of calling on Turkey and Greece to bury their traditional animosities, saying "This sad chapter of ill-will must end."

In this regard, Mr Bush urged both sides to reach a solution to their 27-year deadlock over the divided island of Cyprus. "We have seen too much change in this region and throughout the world to stand for the status quo in Cyprus," he said.

However, as throughout his tour, Mr Bush insisted he was offering no fresh US peace formula. Addressing himself to both Greeks and his hosts, he said: "The solution lies in your hands."

On Saturday Mr Bush offered his explicit backing for Mr Ozal's proposal for quadrilateral talks embracing Turkey, Greece and the Turkish and Greek Cypriot communities. Greece has rejected the plan, claiming it accords unjustified status to the Turkish Cypriot community, which only Turkey has recognised as a state since its 1974 invasion of the island's north.

Washington apparently hopes that the formula can be made to work by fudging the status of the interlocutors for each Cypriot community, so that for instance they would be described as "leaders" or "representatives", rather than as presidents in each case. "The question is a question of community, not personality," Mr Bush said on Saturday.

However, this will succeed only if President George Vassilopoulos, the Greek Cypriot leader, and Mr Raoul Denktash, who in his own view Turkey's eyes is the president of northern Cyprus, can be persuaded to accept the formula - something over which UN officials in New York express the gravest doubt.

Settlements obstacle for Israel

IN the Jewish settlement of Adam yesterday morning, on a West Bank hilltop northeast of Jerusalem, work was going on space on a row of new houses designed for families who have been living in mobile homes on the site.

Saudi Arabia had just joined

Egypt in proposing that Arab states would end their economic boycott of Israel if Israel froze fast-growing building

of settlements in the occupied territories, which they and

much of the international com-

munity regard as illegal. Mr James Baker, the US secretary of state, who has called for a

settlement freeze to ease the

path to Middle East peace

talks, was due in Jerusalem shortly.

If all this bothered the head

of Adam's settlers, who gave

his name only as Heber, he

wasn't letting on. "I don't talk

to journalists," he said.

"We live here because we

like to live here, not because of

ideology or politics." He

quickly shut the door behind

him which led to his office

wherein hung a portrait of Mr Menachem Begin, the former

prime minister, a signed photo

of Mr Yitzhak Shamir, the

present incumbent, and flags

of their Likud party.

A short distance away, at

Ma'ale Mikdash, a religious

settlement, a resident was

more forthcoming in giving

details. There are, he said, 60

families in the 10-year-old set-

tlement, with 30 new houses under construction. Sixteen mobile homes have been brought in space on a row of new houses designed for families awaiting new homes.

The two settlements are tes-

tament to a recent surge in set-

tlement building, under the

auspices of Mr Ariel Sharon,

the hardline housing minister,

Syria in 1987. But the pace accelerated after Likud first

came to power under Mr Begin

a decade later, when there

were fewer than 10,000 settlers

in the West Bank. Peace with

Egypt in 1979 brought no halt

to the policy.

By March this year, the US

State Department estimated

the numbers thus: West Bank

- 90,000 settlers in 150 commu-

nities; half the land designated

for Israeli use. Gaza - 3,000 in

15 settlements; one third of the

land reserved for Israeli use;

the Golan - 12,000 settlers

in 36 settlements; east Jeru-

salem - 120,000 Jews in 12

Jewish suburbs.

Settlements are at the heart

of the Israeli-Arab dispute. The

Arabs fear Israel's drive to

"create facts on the ground"

is fast narrowing the chance of

peace based on the return of

occupied territory. By the same

token, Mr Shamir, Mr Sharon

and their supporters see the

settlement drive as the best

way to cement Israeli rule over

the occupied lands.

Jewish settlement began

soon after Israel captured the

West Bank, the Gaza Strip and

east Jerusalem from Jordan

and the Golan Heights from

Syria in 1967.

The latest settlement boom

coincides with a loss of

momentum in the Palestinian

uprising in the territories. At

Adam - as at most settle-

ments - the building workers

were almost all Arabs, working

yesterday despite a general

strike called by the uprising

leadership. The scale of con-

struction is such that if

Mr Shamir were to reverse his

refusal to freeze new building,

the backlog of unfinished work

would keep the cement mixers

turning for many months to

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INTERNATIONAL NEWS

Bush faces tough Senate battle on China trade

By Lionel Barber in Washington

PRESIDENT Bush this week faces a stiff challenge to his China policy when Senate Democrats seek to attach conditions to the renewal of most-favoured nation (MFN) trade status for Beijing.

The Senate vote is expected to be close, a reflection of widespread dissatisfaction over China's human rights record as well as its alleged unfair trade practices and its policy of exporting missiles and nuclear-related materials.

Mr Bush, a former US ambassador to Beijing who takes special pride in his China policy, requires at least 34 votes to sustain a veto of legislation proposed in the Senate attaching conditions. Since Mr Bush has yet to lose a veto fight, a defeat on China would amount to a serious setback.

The administration has already lost the battle in the House of Representatives, with members voting overwhelmingly to attach conditions to

MFN status before it can be renewed in 1992.

Legislation proposed by Senator George Mitchell, Senate majority leader, and other leading Democrats, would allow MFN to go forward this year. But it would cut off the trade benefits of China exported certain medium-range missiles to Pakistan, Iran or Syria.

The administration mounted a last-minute effort last Friday to counter the Mitchell bill. In a 20-page letter, Mr Bush promised to crack down against imports of goods produced by slave labour and to renew opposition to IMF or World Bank loans to China until Beijing improved its human rights record.

Senator Max Baucus, a Montana Democrat who supports Mr Bush's decision to renew MFN for China, said the administration had also agreed to use Section 301 of US trade laws to open Chinese markets — if bilateral talks failed to

yield results next month.

So far, Mr Bush has promised to "work actively" with other parties to support Taiwan's request to join the General Agreement on Tariffs and Trade. Mr Baucus described this as a "breakthrough", even though US policy acknowledging Beijing's position that there is only one China remains unchanged.

The whiff of hyperbole suggests that Mr Bush's supporters in the Senate recognise they have a battle on their hands to defeat Senator Mitchell's bill. Mr Mitchell said that Mr Bush's letter was "mostly rhetoric" and provided no remedy on human rights — an assessment shared by Asia Watch, the human rights monitoring group.

The administration argues that removing MFN status — which is enjoyed by 100 countries — would undermine reformers and deprive the US of influence.

Big oil spill off Western Australia

A GREEK oil tanker broke up and spilled 10,000 to 20,000 tonnes of light crude into the sea off the west coast of Australia yesterday, creating what authorities described as a catastrophic spill. Reuter reports from Sydney.

The spill was estimated at eight miles long and 1,000 yards wide.

"It's a catastrophe, a major oil spill. It cannot be contained as it is now," a maritime official said in Perth.

Conservation officials said hundreds of people had volunteered to help clean the spill, which threatened marine zones and five islands supporting seabirds and colonies of Australian sea lions.

The Kirk, carrying 90,000 tonnes of oil from the Gulf to Kwinana, south of Perth, radioed for help in the early hours yesterday, having reported a fire on board.

Rescuers on military and civilian helicopters found the ship severed at the bow and oil spewing into the sea off Carnarvon, a fishing town 105 miles north of Perth.

The Kirk's 37 crew members were shifted to Perth.

Mr Bob Hogg, national secretary of Australia's ruling Labor party, has been charged with breaching electoral laws by failing to disclose thousands of small donations.

He told Australian Broad-

Indian budget may cut defence spending

By K K Sharma in New Delhi

THE Indian government has hinted strongly that it may cut defence spending in an attempt to tackle the sharply deteriorating fiscal imbalance and the balance of payments crisis.

A pre-budget survey of the economy in the past year and its prospects, presented to parliament at the weekend, points out that fiscal imbalances are at the root of India's economic problems. This is attributable to the excessive growth of government expenditure.

The two main areas where expenditure can be cut are identified as defence and subsidies, and it is likely the axe will fall on both when the government's annual budget is put on approval on Wednesday.

The allocation for defence in 1990-91 was a high Rs105bn (\$2.5bn). Although inflation is in double figures, a reduction in real terms can be expected in the current year. The survey makes clear that "it is necessary to programme defence expenditure on the basis of a realistic assessment of the strategic environment and assumptions of maximum cost effectiveness".

The survey also points out that "it is essential to rationalise the major subsidies on exports, fertilisers and food which have reached levels that are unsustainable". Since export subsidies have been cut this month, those on fertilisers and food are expected to be sharply reduced in the budget.

India is already committed to reduce its fiscal deficit as part of conditions for obtaining a \$5bn-\$7bn loan from the International Monetary Fund to tackle its balance of pay-

ments crisis. Its commitment to reduce government expenditure and raise both direct and indirect taxation have now been officially affirmed.

The survey states: "The time has come to start making necessary macro-economic adjustments" and "this will mean hard decisions and difficult choices because the soft options have been exhausted". It warns of austerity measures in the budget and of need for strict measures to improve the budgetary and balance of payments position.

Despite recent measures, the survey warns that "the pressures on the balance of payments are likely to persist through the current year", notwithstanding the respite provided by IMF assistance.

The survey speaks of the many "uncertainties" that the economy has undergone in the past year, including domestic political instability, the impact of the Gulf crisis on the balance of trade and inflation.

However, it expects the economy to register a growth of about 5 per cent in gross domestic product in 1990-91.

But the survey notes that "macro-economic imbalances characterised by high fiscal deficits and growing revenue deficit have continued to remain a major source of concern for the government during the past few years". The crux of the problem is the high trade deficit which was financed by heavy external borrowings. This worsened in 1990-91, when oil imports reached a record Rs105bn, 72 per cent higher than in the previous year.

S African opposition leaders call for de Clerk to quit

SOUTH African opposition figures and newspapers called at the weekend for the resignation of the ministers of law and order and defence — respectively Mr Adrian Vlok and General Magnus Malan — following the government's admission that it had made secret payments to the mainly Zulu Inkatha party. Patti Waldmeir reports from Johannesburg.

Anglican Archbishop Desmond Tutu, a leading anti-apartheid cleric, went so far as to demand the resignation of

President F W de Clerk, if it were to emerge that he had known of the funding. The far-right Conservative party also demanded his resignation, saying the payments to Inkatha proved government deceit and violated basic principles of democracy. "Any head of government would resign immediately under such circumstances."

Mr Kobus Jordaan, an opposition Democratic Party MP, said he had evidence of much larger secret payments than those hitherto revealed, as much

as R5m (\$1m) having gone to Uwasa, the Inkatha trade union, he claimed. However, to protect his source, he would not release this evidence, he said.

The authoritative Sunday Times newspaper in South Africa said in an editorial that Mr de Clerk was "in danger of being dragged down by the sinister forces that lurk in his government."

"For thousands, perhaps millions, of South Africans who, like Mr Mandela, took President de Clerk at face value

and gave him their sympathy and support, it is becoming increasingly difficult to suspend judgment. The kindest interpretation of events is that he has failed, so far, to establish proper control of his government," it added.

Last night, Inkatha's national conference in Ulundi unanimously re-elected Chief Mangosuthu Buthelezi as party leader. He has been severely embarrassed by the revelation of government funding, which he claims was made without his knowledge.

Friction from putting brake on dirty tricks

Patti Waldmeir assesses the scandal over official funding for Inkatha in South Africa

TWO DAYS after Mr Nelson Mandela was released from prison in February last year, the National Party government in South Africa was working to undermine him.

While Mr Mandela, leader of the African National Congress, was risking much to persuade his followers to trust the Nationalists, ministers were authorising secret payments to the ANC's bitter political rival, the mainly Zulu Inkatha movement.

Such trust — on which a negotiated political solution in South Africa must be based — has been severely damaged by revelations of clandestine governmental dealings with Inkatha. Indeed, the ensuing scandal has provoked the most serious crisis of President F W de Clerk's two years in office.

The sums paid to Inkatha (first revealed on Friday in South Africa's Weekly Mail newspaper, then confirmed by the government) are relatively small: R250,000 (\$25,400).

Also, as Pretoria points out, they were made before Mr de Clerk announced a new, less sinister policy on covert operations a year ago. Furthermore, it is not clear whether he knew of the payments, made to fund Inkatha rallies in Natal. Considering the small size of the sums, he might not have been told.

Even so, the government's admission that it has financed Inkatha, which was forced on it by the publication of internal memos from the security police, must lend credence to claims that the government has been involved in far more sordid activities than paying for banners and stadium

tents. A working group which brings together the ANC, Inkatha, the government, church people and business is to go ahead this week in an attempt to end the violence.

Until that is halted, as Mr Mandela has often made clear, talks on a new constitution cannot proceed in any case.

Indeed, the ANC's comments on the scandal have been oddly muted. Mr Mandela said on Friday night: "If the government continues with these criminal operations, it is doubtful we can avoid a complete breakdown in relations." This left the possibility that the government could prove such support had ceased, damage would be limited.

Since then, Mr Mandela and other ANC spokesmen have moderated their comments even further, pointedly refusing to exploit the government's embarrassment. They have limited themselves to calling — once again — for the resignation of Mr Adrian Vlok, law and order minister, and General Magnus Malan, defence minister, but have not tried to make their rivals squirm.

For all that, the damage to Mr de Clerk's credibility is severe. For months, he has protested to all who would listen — including foreign government — that Pretoria is not trying to sabotage the ANC.

In April, he told parliament in Cape Town: "It is not government policy to render direct or indirect financial or other support to any political party or organisation, except government aid made available for a specific purpose on an equal basis, such as the payment of constituency allowances."

It seems unlikely, though, that the fracas will lead to a complete breakdown in con-

nection or his ability to control his ministers and the security forces. The ANC has often accused the government of having a double agenda. What remains unclear is whether Mr de Clerk is himself pursuing such an agenda or failing to prevent others doing so.

These questions must be resolved before constitutional talks can proceed. To establish that crucial trust between himself and Mr Mandela, Mr de Clerk must prove both that funding to Inkatha has ceased and that he is ensuring that unofficial support for Inkatha — from what the ANC believes is a "third force" inside the security services — is also being stopped.

Dismissal of Mr Vlok and Gen Malan would improve relations with the ANC, but this seems unlikely at the stage.

The president is likely to take some public action to limit the damage, especially if, as expected, there are further revelations of government involvement with Inkatha.

The de Clerk government has weathered several recent scandals, including those from infiltrating spies into local government and allegations that security force squads had murdered anti-apartheid activists.

This latest trouble seems unlikely to blow over so easily.

Confidence in Mr de Clerk has been shaken among South Africans in general and foreign governments.

To restore it, he must force his colleagues to abandon the dirty tricks which were the hallmark of successive South African administrations.

Unless he does, no one will believe that the bad old days of apartheid are really near an end.

Aid to Zambia jeopardised

ZAMBIA has made a major effort to control finance and keep the programme on track. I'm sure donors will acknowledge that," Mr Bussière, who is Canadian, said.

President Kenneth Kaunda, eager to extend his 27 years in power through the election in October, angered financial institutions in May by saying he would delay subsidy cuts on the country's staple food, maize, for six months.

Economists said the unfunded domestic budget deficit was 11bn kwacha (\$96m).

In this atmosphere of distrust and suspicion, there can be little progress towards talks on a new constitution. Mr Mandela, now president of the ANC, made this point when he first heard of the admission of funding for Inkatha.

It seems unlikely, though, that the fracas will lead to a complete breakdown in con-

Little Asean progress

By Alexander Nicoll and Lim Siong Hoon in Kuala Lumpur

MEMBERS of the Association of South-East Asian Nations (Asean) took tentative steps towards closer economic co-operation at a weekend meeting of the six countries' foreign ministers.

Zambia has reneged on two International Monetary Fund programmes since 1985 and this plan is seen as its last chance for international funding.

Economists said the unfunded domestic budget deficit was 11bn kwacha (\$96m).

They agreed that a proposal from Thailand, that Asean

should aim to be a free trade area by 2000, be further discussed and submitted to the next summit of Asean leaders in January. Only 20 per cent of Asean countries' trade is with fellow members.

Malaysia's proposal for an East Asian Economic Grouping, involving Asean and its northern neighbours from Brunei, Indonesia, the Philippines, Singapore and Thailand.

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UK NEWS

Government seeks public service accountability

By Ivo Denslow, Political Correspondent

THIS GOVERNMENT will today unveil its long-awaited Citizens' Charter with pledges to force greater accountability on local authorities, nationalised industries and ministry departments through enhanced performance targets and new consumer rights.

Among the measures expected are a greater role for the Audit Commission in monitoring local councils, action to reduce waiting times in the National Health Service and access to information on schools. It wants to broaden parental choice.

For the Treasury doggedly resisting measures that would raise public expenditure, the emphasis of the charter will centre on making public services more accountable and "user-friendly" rather than imposing financial penalties for poor providers.

It is expected that plans to give British Rail passengers a right to financial recompense if services do not meet specific standards have been "diluted" by demands to review the powers of regulators for the newly privatised utilities. Ministers are already braced

for an onslaught of criticism from opposition parties, determined to undermine what has been presented as Prime Minister John Major's personal initiative and a key component in the Tories' election manifesto.

The white paper comes at the start of a hectic final week of business prior to the summer holiday recess.

Tomorrow, the government is due to publish details of its armed services cutbacks alongside a report into the Gulf "friendly fire" tragedy in which British servicemen were killed by US aircraft.

At the same time, the Cabinet will meet for its annual pre-holiday discussions on the public expenditure round. And reports that Whitehall departments have submitted "idle" amounts to well over £100m above last year's spending.

Other scheduled announcements include publication by Mr Michael Heseltine, the environment secretary, of next year's Revenue Support Grants (RSG) for local authorities and, on Wednesday, the green paper on trade union reform.

Yesterday, Labour attempted to pre-empt the Citizens' Char-

THE BCCI SHUTDOWN

Bank accounts 'used to finance Arab terrorism'

By Alan Friedman in New York

A STRUGGLE between US government agencies and law enforcement officials over the investigation of the BCCI affair was building yesterday amid evidence that accounts at the bank's London branches were used to finance Arab terrorism.

A US official who asked not to be named said he was aware of these accounts. The official confirmed that in the UK the Bank of England had discussed the matter with British intelligence services.

In Washington, the Department of Justice declined to "either confirm or deny" the existence of accounts at BCCI in London that were used to

help finance the activities of Abu Nidal and other Arab terrorist groups.

Mr Robert Morgenthau, a Manhattan district attorney who has been investigating alleged money laundering by BCCI as well as the bank's secret control of First American Bancshares in Washington,

said that months the Justice Department had ignored his repeated requests for crucial BCCI documents and information, which the Justice Department also denied.

Both current and former investigators have said the Justice Department has been trying to ensure control of the BCCI case for itself and to hinder efforts by investigators on



About 500 people demonstrated through the streets of Hong Kong yesterday in protest at the bank's liquidation

Concern voiced over protection of assets

By Bernard Simon in Toronto

THE RECEIVER of BCCI's Cayman operation controlled branches in 29 countries around the world. Assets controlled from the Caymans reached a peak of \$7bn in 1989. Mr Wight said authorities in some countries are considering paying out BCCI creditors "under some guise or another", which might be contrary to the interests of the creditor group as a whole. Mr Wight says he has warned the governments concerned that they could face legal action later.

Trade union law reform plans win little support from public

By Andrew Adonis

WITH the government set to publish plans for tough new curbs on trade unions later this week, an opinion poll published today reveals little public support for further legal restrictions.

"Union bashing is unworthy of the government," said Mr Norman Willis, TUC general secretary. "Every other country in the European Community prescribes and practises social partnership at work - we want this too".

The poll, carried out by NOP for the TUC, shows only 18 per cent public support for legislation to limit union rights further than already done by seven pieces of legislation passed since 1978, with 68 per cent opposed. Even Conservative voters are strongly against, with 21 per cent in favour and 68 per cent against.

The poll also shows 93 per cent popular support for a legal right for an employee to trade union representation when in dispute with an employer, and 85 per cent support for legal

rights to a minimum wage, for limits on hours of work and for rights to minimum number of days paid leave. The government is strongly opposed to enshrining any of those rights in law - British or European.

"Union bashing is unworthy of the government," said Mr Norman Willis, TUC general secretary. "Every other country in the European Community prescribes and practises social partnership at work - we want this too".

The green paper, to be launched later this week by Mr Michael Howard, employment secretary, will feature a series of controversial measures to be enacted should the Conservatives win the next election.

Under the proposals, unions

would be required to observe a seven-day cooling-off period before calling strike action after a successful ballot. They would also be obliged to give employers notice of precisely what industrial action was to be taken.

An inter-union agreement by which the TUC determines which union should represent a group of workers would be overridden. Instead, employees would be able to choose which union they wished to join.

More stringent financial reporting rules for unions, and enhanced powers for the trade union certification officer, will also be proposed. Ministers will also be considering giving individuals a right to compensation for loss resulting from unauthorised industrial action.

The approval is conditional on a settlement of a final price this week with the State Bank

of Pakistan, the central bank. Last Tuesday, two senior BCCI executives formally told Mr I.A. Hanafi, Pakistan's central bank governor, of their interest in acquiring the BCCI branches. A senior banker yesterday said a settlement might take place this week.

Senior officials have said recently that they would like the BCCI branches to continue operations even under a new management such as the BCCI(E), but would like to be certain that there are no legal issues involved. A BCCI banker said the future of the liabilities of the bank, especially its foreign-exchange commitments, would also need to be discussed.

From the moment you enter the air-conditioned cabin, there is little doubt that the standard selected for the Jaguar Sovereign is one of uncompromising luxury.

Ease the door closed and you enter a unique environment tailored and perfumed with supple, hand-stitched hides. Here the mellow lustre of inlaid burr walnut discreetly counterpoints an interior that has long been synonymous with this distinctively British Saloon.

Generously proportioned front seats, with lumbar support are electrically adjustable, so perfect positioning is available at the touch of a button, while in the rear, there is armchair luxury, and individual reading lamps add a further touch of distinction.

Windows, aerial and heated mirrors are also electrically controlled for easy, efficient use. At your fingertips, a choice of 'sport' or 'normal' automatic transmission driving modes is complemented with power-assisted steering. Whilst cruise control tames the exhilarating performance of the Sovereign's 24-valve 4 litre electronically managed engine into near silent obedience. Other technical innovations include a sophisticated anti-lock braking system and a low-loss catalytic exhaust.

As with everything else, the Jaguar Sovereign's in-car entertainment sets its own standard.

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UK NEWS

Slower fall seen in London service sector

By Alan Pike

THE RATE of economic decline in London's service sector is slowing and there are signs of confidence recovering, the London Chamber of Commerce says in its quarterly economic trends survey today.

Warnings that service employers in the capital continue to face difficult conditions accompany the survey, but the chamber says the results disclose a modest slowing in the rate of decline in

activity in the second quarter of 1991. This is the first evidence of a slowing down in the decline since the recession became obvious in mid 1990.

Altogether, 36 per cent of service-sector companies now predict that profits will increase in the next 12 months, compared with 26 per cent in the last quarterly survey. The proportion predicting cuts in investment in the coming year fell slightly from 32 per cent to

29 per cent between the first and second quarterly surveys.

Further reductions in interest rates were cited in the survey by 73 per cent of service-sector companies as the most important ingredient for improving business prosperity.

The slowing in the rate of decline in business activity for service companies was not reflected in London's manufac-

turing sector, reporting an overall reduction in staff rose from 41 per cent in the first quarter of the year to 32 per cent in the second.

The chamber predicts that London will continue to suffer disproportionately from job losses.

London Chamber of Commerce Quarterly Economic Trends Survey, 69 Cannon St, London EC4N 5AB, £12 members, £18 non-members.

The proportion of manufac-

Hard times turn the bloom into gloom in Bristol

Michael Cassell in a city that had to cancel its flower show

THE BLOOM has gone out of Bristol. With the commercial capital of the south-west within the recession, the city's flower show has been cancelled for the first time in 46 years.

Mr Roy Smith, secretary of the Downend Horticultural Society and an exhibitor for 20 years, mourns the loss: "It's a very sad day. For many of us the show was the highlight of the year. No one can say with any confidence whether it will be in 1992."

The decision, announced by a charge-capped city council unable to attract a private sponsor to help meet the show's cost, follows the cancellation of the British powerboat grand prix, which draws 250,000 visitors to Bristol from around the world. This year it failed to secure a corporate sponsor with £100,000 up its sleeve. Unexpected gaps in the city's busy calendar of events may not, at first glance, appear to be the stuff of crisis. Yet they help to confirm that, in spite of outward appearances, even Britain's economic strongholds are under siege.

The city still looks smart, its waterside cafés busy with tourists and stores in the Broadmead shopping centre selling high-margin "treats" to customers who are compensating themselves for cancelling the annual holiday. Even Verrechia & Sons, the local ice-cream makers, managed to put on a brave face when the brief, summer heatwave sent sales soaring.

Bristol has been regarded as one of Britain's "sun belt" cities. It has taken full advantage of an extended period of economic buoyancy to act to transform its commercial base, attracting new-technology industries and financial services while trying hard to

maintain a declining manufacturing sector.

As traditional jobs have dwindled, jobs in banking, insurance and other financial services have flourished, creating more than 30,000 jobs and enabling Bristol to claim that it has become Britain's second financial city.

New-technology companies have also poured in to help complete the picture of a dynamic local economy trying to cope with the familiar ailments of success, such as skills shortages and lengthening traffic jams.

For all its efforts, though, Bristol has not been able to escape. This time the recession has bitten deep into the type of economic activity that was not supposed to get badly hurt.

Many of the financial institutions that have moved into the city since the last recession are now shedding jobs. Employers in the insurance sector, such as London Life and Clerical, Medical and General, are engaged in redundancies. Banks and financial service companies are shedding increasing numbers.

Mr Mike West, the city council's director of economic development, says the recession is having a "devastating effect" on the Bristol economy, already facing the repercussions of a shake-out among defence contractors.

Rolls-Royce and British Aerospace directly sustain 17,000 jobs locally and support many more in the area. Bristol Polytechnic has just forecast that 40,000 out of 150,000 defence-dependent jobs in the south-west might be lost in the next 10 years.

With job losses across the board, unemployment in Bristol has already risen by more than a third in recent months to reach an average of 10 per



No escape: Bristol transformed its commercial base but still feels the recession

Impact of recession



In some localities it runs as high as 25 per cent.

Mr Graham Robertson, leader of the Labour-controlled council - still clinging to its policy of avoiding compulsory redundancies - says the real tragedy of the decline in defence work is the potential loss of engineering and electronics skills. The trouble, he emphasises, will be compounded by the recession.

"Many of our small businesses could have absorbed the skilled workers looking for jobs but they are now under real pressure. Not only are they losing sub-contract work but they

are being squeezed hard by the banks."

Mr Robertson is optimistic about Bristol's longer-term prospects but pessimistic about the immediate future. "I think it will get worse yet before it gets better."

The emphasis is on optimism at the Bristol Development Corporation, controversially instructed to redevelop about 900 acres of city-centre land but waiting for the economic revival necessary to help it achieve its ambitions.

Mr Miles Collings, chief executive of the BDC, agrees that the local economy has suffered badly and admits that any further deterioration would spell disaster. "The recession will probably take longer to pull out of than many expect. But the idea that it might yet get worse is impossible to contemplate."

Mr Collings looks for the silver lining. "The city faced problems of overheating and the setback has at least given us the opportunity to take stock and try and redress imbalances before targeting fresh inward investment."

"The danger for a place like Bristol is that it can get a little complacent. Once that happens, it can become vulnerable."

Investment today is highly mobile and there is a lot of competition from other commercial centres. The recession will help keep the place on its feet."

The Bristol Chamber of Commerce is more concerned about businesses managing to stay on their feet. Mrs Susan Marshall, director of public and policy affairs, says the recession is "cutting into the heart of companies" and maintains that there is no sign of the return in confidence that must precede a revival.

"Many small businesses which began with great optimism in the last few years have not managed to get themselves into a strong enough position to survive the downturn. There are severe cash-flow problems and the result is a lot of insolvencies."

Cashflow means something rather different to Mr Ryan Cadby, sitting with his two adopted dogs in an empty doorway on College Green.

Mr Cadby is unemployed and says his wanderlust means he would not take a job if he was offered one. "The finances are not too bad because people dip into their pockets when they see the puppies. I let other people worry about the recession."

Decision on army cuts made today

By John Hunt

FINAL DETAILS of where cuts will be made in the army will be decided today when Mr Tom King, the defence secretary, meets the army board.

A statement is expected in the Commons this week giving details of proposed cuts in all the armed services.

Mr King has already announced that the army will be reduced by 40,000 personnel to a figure of 116,000 over the next three years.

Some Conservative MPs strongly oppose the cuts and are worried that famous regiments may disappear or be merged.

There are fears that Britain will have its smallest land army for more than a century. Mr King said yesterday he felt no guilt about the reductions. "My duty is to make sure I deal fairly across the board," he said.

"I have a responsibility to parliament which votes the money. We are spending 22bn on our defence and I have to make sure the money is properly spent."

Speaking on television yesterday morning, he denied that all the decisions on the defence cuts were being made by civil servants.

He said that if the army were not trimmed to an appropriate size there would be too many regiments. They would then be starved of equipment and would not have decent facilities or accommodation.

Sales fall is easing, retail trade reports

By Alan Pike

WHOLESALE and High Street sales remain weak but with signs that the rate of decline may be slowing, according to the Confederation of British Industry/Financial Times monthly survey of the distributive trades published today.

A statement is expected in the Commons this week giving details of proposed cuts in all the armed services.

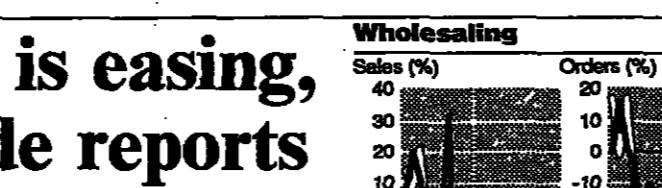
Mr Nigel Whittaker, chairman of the CBI's distributive trades panel, said that with unemployment still rising sharply "it could well be some time before consumer confidence is restored", in spite of recent interest rate cuts.

Retail sales volumes remained below the level of June 1990, last month after a sharp decline in volumes in May. A balance of minus 4 per cent of retailers reported that June sales were poorer than a year earlier. That compares with minus 8 per cent in May and minus 7 per cent in January, suggesting a slackening in the rate of decline. By contrast, the June 1990 balance was plus 27 per cent.

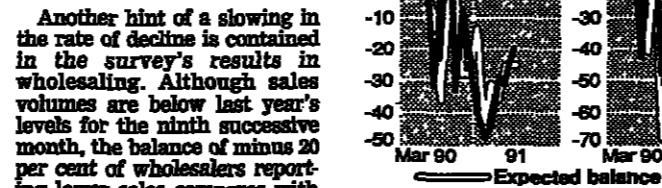
The survey, which polled 567 companies in the retail, wholesale and motor trade sectors, shows that retailers expect to see a small pick-up in sales this month but are less optimistic about the extent of any likely improvement than in other recent surveys.

"Since the anticipated growth in volumes reported in recent surveys has not been fulfilled, retailers are now more cautious about any forthcoming improvement," Mr Whittaker said.

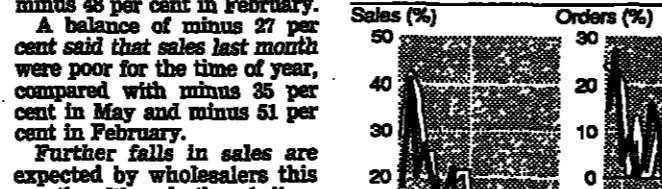
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Wholesaling



Retailing



Total distribution

Stimulus to rail freight is expected today from Rifkind

MR MALCOLM RIFKIND, the transport secretary, will today try to give substance to his recent commitment to get freight off Britain's roads and onto the railways, Richard Tomkins writes.

He is to chair a one-day seminar in London by which he will discuss with 100 delegates from the transport industry how best to overcome the obstacles to making more use of rail for freight.

He is expected to announce further

moves to encourage freight on to trains, including details of the cross-Channel freight services planned by British Rail for the opening of the Channel tunnel.

Mr Rifkind's commitment to rail freight was given at a Financial Times transport conference in May, when he referred to four moves which he said would help to take goods off the road.

They were an increase in the so-called "green" grant, which

rewards companies for using rail instead of road; the opening up of rail's tracks to private-sector operators; the advent of combined transport which transfers lorry loads to rail wagons for the long-distance part of their journey; and the opening of the Channel tunnel.

Mr Rifkind's initiatives have met criticism from the transport industry, which says the difference they will make to levels of road freight will be so small as to be insignificant.

It is widely accepted in the transport industry that rail is uncompetitive with road for distances of less than 200 miles. Because few freight journeys in Britain exceed that distance, BR's share of the freight market has shrunk to barely 8 per cent.

Mr Rifkind has said that because the Channel tunnel will extend through rail services from Britain to the Continent, it will take 400,000 lorries a year off Britain's roads when it opens in 1993.

The Henley Centre for Forecasting said in a report last week, however, that that would represent less than 0.25 per cent of the road freight market in terms of tonnage moved.

Many transport operators believe that only a substantial injection of public funds into rail freight terminals, trains and tracks, combined with much higher taxation of road vehicles, will make a significant difference to the balance of traffic between rail and road.

Morris ponders reshuffle among TGWU leaders

By John Gapper, Labour Editor

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THE WELSH ADVANTAGE.

MANAGEMENT

The argument between industry and the City over short-termism has not gone away. Indeed, the current wave of criticism of the banks for "profiteering" on their loans to companies during a recession and in spite of falling base rates is just another example of the fact that so many in industry and commerce the City has failed to do what is expected of it.

It is unfortunate that there is a mismatch in both perception and reality between the City and the corporate sector over the roles of both the capital and the money markets.

The City, and especially that part of it concerned with the capital market, seems to think that the corporate attack on it is that it is short term in the sense that it misprices shares. It is perceived to do that because at the heart of its operations are two malfunctions.

First, analysts and fund managers emphasise current earnings and dividends rather than future ones, and apply their price/earnings ratios to figures which are too low.

Second, fund managers are under short-term pressures because of the way in which they are evaluated on their quarterly performance.

The fact is, however, that the corporate critique of the City is much broader. Business sees the equity market primarily as a source of capital; that is, the place where, in the first instance, companies become widely owned by the public as a result of initial issues of shares for cash, and then later as the place where additional capital is raised as a result of secondary issues. But unfortunately over the years the City and the capital markets have, to an extent, lost sight of this fundamental purpose and no longer see themselves primarily as company developers, finding finance for industry and commerce via the promotion of new stocks.

The City's counter attack is that:

- The stock markets' pricing behaviour is not the cause of the problem; shares are not mispriced. The market does not over-emphasise current earnings and dividends; price/earnings ratios do reflect long-term forecasts and growth prospects. Indeed, company announcements about capital expenditure, research and development and new investments often result in price increases. The markets are not, in fact "short term".

• Management, however, often takes a "short term" stance in the corporate sector. Current businesses are milked, and R&D is neglected because of short-term pressures to increase the dividend, to increase the share price, to respond to fund managers who are evaluated quarterly, and to ward off the takeover threat.

- All this intensifies management's propensity to be short term. This is brought about basically by reward systems, internal measures and capital budgeting, lack of profitable opportunities and erroneous concepts about the cost of capital.

• The solution is not to tinker with

The debate about short-termism rages on. Alan Clements suggests that industry and the City should understand each other's point of view and start working together

Why perception and reality do not tally



Alan Clements: the City and the capital markets have lost sight of their fundamental purpose

systems (the markets, taxation, financing techniques, regulations etc) but for management to "manage as if tomorrow mattered".

What is the reply of business to this? It is a three-part answer:

• Investment and merchant bankers and brokers used to hold the view that the capital market's prime purpose was as a source of capital for industry and commerce. But over the years most of the operators in the market - market makers, brokers, investment bankers and investors - have come to see the market as something else. They seem to view it now pre-eminently as a place in which stocks are purchased for their income return and for capital gain.

What is more, they are concerned less with stocks newly issued by companies than with stocks which have been in existence for a long while, and which will have changed hands many times before. The results are that buyers and sellers who ought to attempt a fundamental evaluation of their commodity - stocks and shares - often do not, and instead think more of the market as a whole, and what it will do next.

It seems that the equity markets have developed in a way which has placed undue emphasis on secondary or trading markets. This is revealed by their pre-occupation with liquidity, and behind that, by the degree of speculation which has been seen as a necessary concomitant of liquidity. These two, it is argued, are vital for the sustenance of efficient capital markets in equity stocks.

The test of an efficient market does

not seem to be its ability to provide new finance for industry and commerce, but rather its capacity to oil the wheels of trading in stocks and derivatives from them, such as futures, options and indices.

The result has been a tendency for equity investors to lose interest in the essential characteristic of an equity investment, namely the fact that it is a purchase of a part-ownership of an enterprise.

The reasons behind this loss of interest have often been stated - ownership of companies has become too fragmented (if you are a small shareholder why bother to interfere if over 99 per cent of any benefit is going to accrue to others?), and larger shareholders (the institutions by and large) are more concerned with diversification of their portfolios and performance against an index. The result is dilution of the ownership role, and a distortion of the market's fundamental purpose.

That purpose is the facilitating of long-term investment in the economy via the raising of new finance, and the purchase of a share of ownership in business. Unfortunately, investors have been persuaded that it is only the secondary or trading market which matters, that by studying and understanding it one can become a successful investor.

Instead, the experts have argued, a study of a stock's short-term fluctuations relative to the market plus a feel for what the market will do next, is all that is required. Liquidity is, of course, a vital feature of the market, but those developments have meant that liquidity has become synonymous with volatility and high turnover.

Why does the equity market need so much liquidity to make it efficient? What is wrong with investors concentrating on long-term fundamentals, while speculators who need liquidity fill in the gaps and smooth out fluctuations? Is it perhaps that the efficiency pursued by the market - aided and abetted by liquidity and speculation - is an efficiency of

operations measured by volumes, turnover and commissions?

The result is that the capital markets seem either to drown in their own liquidity or to complain because of starvation as a result of drought. Small wonder that the corporate sector asks: what is it all about, especially when after all the activity, and the ups and downs, the big institutions look little different from a year, or two years ago.

• The second point is that this whole process has been made worse by developments which the markets have hailed as innovative life savers such as *futures* and *options* on indices, and *portfolio insurance*. They have to be regarded as counter-productive because, although they have represented the markets attempts to make long-term investment in unstable times easier, they have intensified liquidity and volatility, and in the end they have not really worked - witness the stock market crash of October 1987.

More important, they have widened the already sizeable gaps which existed between investors and the companies whose shares they contemplated buying. Why? Because now the investor could, in a large way, buy the market and not individual stocks.

The stock market exists, in the eyes of the corporation, as a mechanism which transmits investors' decisions as to which industries and companies are most likely to prosper, into final values, and thus makes it possible for these favoured "names" to raise new capital and grow. But now, as a result of derivatives and the like, investors commanding huge pools of money can influence the market without exercising this vital judgment. In fact by 1987 a massive amount of money was only "passively managed" - small wonder that disillusionment with the whole system set in.

• The corporate sector is still perplexed that companies can have two values - one the result of the normal interplay between buyers and sellers in the everyday efficient market, and the other the product of a bid. The real point about the difference between the two valuations is that it seems to prove that in the normal course of things the true value of retained earnings is overlooked. The price/earnings multiples which emerge in takeovers are nearer the "truth", if one can use that term in what is, after all, a game played against a background of almost total uncertainty.

Having restated the industrialists' case, what can be done about it? First of all, the City and the corporate sector should stop blaming each other. Once again both are in deep trouble. Both sides need to see whether they can appreciate each other's point of view, agree that there is something in each side's case, and then sort out how to work together to make the economy viable and vibrant again.

The author is the former finance director of ICI and is chairman of David S Smith (Holdings).

Clean clothes to scale fresh peaks

Chris Tighe meets an entrepreneur making the move from big to small business

Former Coloroll chairman John Ashcroft discovered the downside of high-profile acquisitive management last year when the empire he had constructed collapsed with debts of around £35m.

But he insists he is in no rush. "I won't look at anything marginal or iffy. I can't afford that risk for my career, my credibility or financially. I came here to re-prove some principles to myself and others."

"Here" is a stone-built cottage in the idyllic Cumbrian village of Morland, near Penrith, where Survival Aids was founded in 1978 by Nick Steven, a former Royal Signals Captain. Ashcroft had long been intrigued by the military and survivalist clothing and equipment sold in the company's shop at Euston Station in London.

Spotted an advertisement for an outdoor clothing company for sale, he responded. Stiff bargaining followed but in January, he and a group of friends, including B & Q vice-chairman Jim Hodgkinson, acquired a 72 per cent stake for an undisclosed six figure sum.

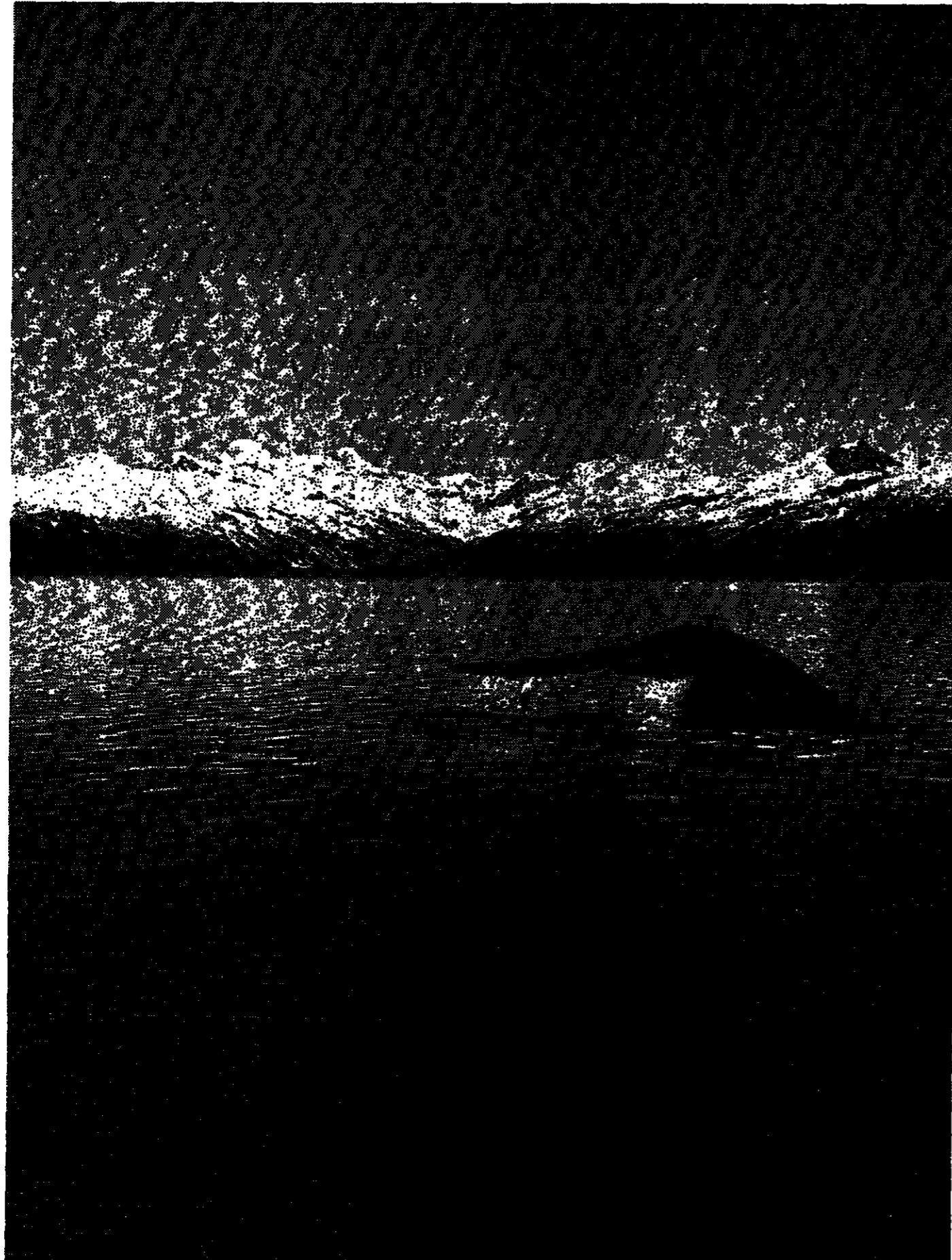
Survival Aids' attractions were what he saw as its rugged image and ethos, its excellent cash profile and lack of debt, its potential for expansion and the appeal of its products to footloose, mortgage-free empty nesters - "exactly the people who weren't Coloroll customers".

The company, which has no manufacturing capability, employs 50 people. Its goods, many of which are imported, are sold by mail order, by contract to customers including the Ministry of Defence, and through five retail shops.

Even with Ashcroft's plans to boost the number of shops to between 20 and 30 in five years - four, all financed from internal cash flow, are to open next month - Survival Aids is tiny compared with the former Coloroll Group with its 8,500 employees.

Ashcroft's arrival at Survival Aids was greeted with some apprehension, says sales director Tolla Sutcliffe. But, she says, he has been a breath of fresh air, a perceptive feeder combining charm and toughness with a clear sense of direction.

"He's nothing like the man we had read about," she sounds relieved. "There are no politics here, no claws needing sharpening."



The few blue whales

remaining alive in the world

are no match for the predator

who has carelessly eliminated

eight hundred species of life

from the face of the earth

In this century alone: Man.

Like every other creature in the sea,

the blue whale requires clean water to live.

The Samsung Group

has designed and is currently producing

supertankers with a double-hull,

double-bottom construction

that prevents oil spills.

The vessels, which are being built

for major oil companies

in the United States and Europe,

are proof that technology

can make man a protector

instead of a predator.

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Bank of Credit & Commerce International

A Statement by the majority shareholders

The majority shareholders of the BCCI Group were shocked by the abrupt action taken by the Bank of England, the Luxembourg Monetary Institute and other regulators on Friday, 5th July 1991 to freeze the assets of the BCCI Group and close its operating branches. This action was taken without any consultation whatsoever with either the shareholders or with the Central Bank of the United Arab Emirates, a member of the College of Regulators. Since April 1990, the Government of Abu Dhabi and related institutions have held a majority shareholding in the BCCI Group.

As is well known, BCCI has encountered various operating problems in recent years and has sustained substantial losses. In order to deal with these problems the majority shareholders have brought about Board and management changes and have injected substantial amounts of fresh capital into the Group.

In October 1990, as a result of the disclosure of various irregularities, the President and the Chief Executive Officer resigned. At the request of the majority shareholders an internal inquiry into these irregularities was instigated shortly thereafter and is continuing. The majority shareholders believe that they took effective steps in mid 1990 to prevent the occurrence of new irregularities.

The majority shareholders feel that they cannot absolve Price Waterhouse from all responsibility since they have been auditors of a major subsidiary (BCCI Overseas) for fifteen years and auditors of the whole Group since 1987.

Towards the end of 1990 the majority shareholders produced a restructuring plan for the future involving the divestment of all the Group's banking activities, principally by disposal on a going concern basis, with an orderly rundown of any remaining businesses. This plan has been developed and refined during the first six

months of 1991. Detailed discussions about it have been held with the Bank of England and other regulators, who were kept informed of developments at every stage.

A key element of the restructuring plan was the formation of three new and separate banks, to be based in London, Abu Dhabi and Hong Kong. Planning for this was at an advanced stage, since it was intended that the new banks should commence operations before 1st January 1992. With the active encouragement of the regulators various senior members of staff had already been recruited. The majority shareholders had been prepared to support the plan with such further injections of capital as would have been required.

Final drafts of individual restructuring plans for the new banks had been sent to the relevant regulators during May and June 1991 and, at the request of the Bank of England and the Luxembourg Monetary Institute, the latest draft of the composite restructuring plan was sent to them on 3rd July, only two days before the closure on 5th July.

The action taken on 5th July has resulted in severe problems (involving financial hardship in many cases) for more than 1.25 million depositors of the Group worldwide and some 12,000 staff are likely to lose their jobs. It has resulted in the destruction, at a stroke, of what the majority shareholders believe was a well structured and viable future plan. If the restructuring plan had been allowed to proceed the majority shareholders have no doubt that no depositors' money would have been lost.

In view of all the above, the majority shareholders deplore what they consider to be the unjustified action taken by the Bank of England, the Luxembourg Monetary Institute and other regulators on 5th July 1991.

The majority shareholders of the BCCI Group comprise: the Government of Abu Dhabi, the Abu Dhabi Investment Authority and the Department of Private Affairs of H.H. Shaikh Zayed bin Sultan al-Nahyan.

16 July 1991

THE WEEK AHEAD

ECONOMICS

Looking for the clues that indicate pattern of recovery

ECONOMISTS will turn their attention this week to new clues as to the likely pattern of recovery for the US and UK economies.

Data during the week on recent changes in UK retail sales, and in total output growth in the US, will guide policy makers on the degree to which recent cuts in interest rates in both countries have boosted economic activity.

In Britain, retail sales volumes in recent months have been highly volatile, due to the boost provided by the Budget to shopping activity in March. Due to VAT increases announced in the Budget, consumers rushed to buy high-priced goods in the high streets before the tax changes took effect.

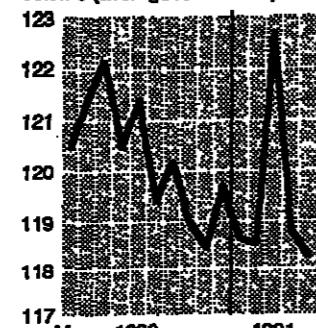
However, sales growth after March has been disappointingly low for many retailers, underlining suggestions that the rise in consumer confidence after the end of the Gulf war was a temporary affair.

Many onlookers believe that consumer spending will not take off in the UK in any sustained way until late in the year, delaying the onset of the upturn from the year-long recession. The best estimate of MMS, the financial information company, is that retail sales volumes last month, which are being announced today, were flat compared with May, with the figures showing a year-on-year decline of around 1.9 per cent.

In the US, interest will be centred on Friday's announce-

UK retail sales

Volume (average 1985 = 100)



Mar 1990 Jun 1991

ment of the increase in gross domestic product in the second quarter of 1991. Following two consecutive quarters of decline, many believe the economy will have shown a modest increase in this period, lending weight to recent evidence that more vigorous growth can be expected later in 1991 and in 1992.

Key key events and financial data during the week are as follows. Median market projections, as provided by MMS, are in brackets.

TODAY: US, June Treasury budget (\$3 billion deficit); UK, July CBI distributive trades survey; visible trade deficit for June (\$300m), June current account deficit (\$500m), retail sales for June (flat month-on-month, down 1.9 per cent on the year); Australia, May housing finance (up 2.3 per cent on year), June industrial product and raw material price indices.

Expected during the week are figures from France on the June unemployment rate (9.6 per cent) and Germany on cost of living in July (up 0.8 per cent on the month).

TOMORROW: France, June trade deficit (FFr 2.5bn); Japan, July 1-10 trade figures; Canada, May wholesale trade.

Wednesday: US, June durable goods orders (up 1 per cent on month), durable shipments, July 11-20 car sales (6.5m); UK, June building society commitments (£3.3bn), British Chambers of Commerce Quarterly Economic Survey.

Thursday: UK parliament begins recess (ends October 14); US, June home sales, export and import price indices for June and for second quarter, money supply figures for week ending July 15 (M1 \$30.52bn; M2 \$3.16bn), initial claims for week ending July 13; Canada, foreign bond holdings announcement.

Friday: US, 2nd quarter GNP (up 0.9 per cent on annualised basis) and GNP deflator (up 3.4 per cent); June bank credit; June commercial and industrial loans and bank credit; Japan, July consumer price indices for whole nation (8.7 per cent on year) and Tokyo (3.3 per cent); June retail sales (up 5.5 per cent on year), June industrial production (down 2.0 per cent on month); Australia, May manufacturing input price index; Canada, June industrial product and raw material price indices.

Expected during the week are figures from France on the June unemployment rate (9.6 per cent) and Germany on cost of living in July (up 0.8 per cent on the month).

Peter Marsh

RESULTS DUE

THE STAR turn among this week's reporting companies will be Imperial Chemical Industries. Buffeted by Hanson, the acquisitive conglomerate sitting on a 2.8 per cent stake, ICI will on Thursday produce a dismal set of half-year figures and probably some details on its restructuring.

Its profits for the six months ended June are likely to be no more than \$450m against \$733m a year earlier. Sir Denis Henderson, chairman, will probably argue this is a creditable performance for a chemicals company in a recession.

Restructuring plans, whether released in full or piecemeal in coming months, will entail large job losses and the shedding of some businesses. But in many ways the bigger news will be Hanson's reaction to ICI's results.

Lloyds Bank becomes the first of the "Big Four" to announce its 1991 interim results on Friday. Last year pre-tax profits in the first half were £405.2m. This year City stockbroker analysts expect profits to be well down, but there is disagreement about how badly it has fared in the recession. Forecasts vary between £35m (from Carr, Kitcat & Aitken) and £300m (Shearson Lehman). The pessimists believe that, apart from continuing problems in the UK, Lloyds will also be hit by areas on its lending to Brazil.

Lloyd's Abbey Life, the insurance group purchased by Lloyds in 1988, will continue to contribute the lion's share of the group's profits, while UK retail banking may still be in the red, though some activities – such as credit card operations – will have returned to profit.

UK COMPANIES

■ TODAY

COMPANY MEETINGS: Erskine House, Oak Hill Road, Sevenoaks, 12.00

F & C Smaller Co's, Exchange House, Primrose Street, E.C., 12.15

Fleming Universal Inv. Trust, 25, Copthall Avenue, E.C., 12.00

High Gosforth Park,

Branding House, High

Gosforth Park, Newcastle upon Tyne, 12.00

BOARD MEETINGS:

Finals:

AIM

Assoc. British Consultants

Cupid

Southend Property

Tinsley (Eliza)

Interims:

MLabs

P & P

Reuters

Temple Bar Inv. Trust

Throgmorton USM Trust

■ WEDNESDAY JULY 24

Bell (A.H.), 100, Wood Street, E.C., 10.00

Caledonia Inv., Cayze House, 1, Thomas More Street, E., 2.30

Craig & Rose, 172, Leith Walk, Edinburgh, 10.30

Davies & Newlands

Gloucester Hotel,

Gatwick Airport, 10.30

De La Rue, La Meridien Hotel, Piccadilly, W., 12.00

Dunhill, Café Royal, 68, Regent Street, W., 12.00

Fleming Euro, Fleetgating

Inv. Trust, 25, Copthall

Avenue, E.C., 12.00

MLabs

Throgmorton Trust, 12.00

Northumbrian Fine Foods

Dukesway, Team Valley, Gateshead, Tyne & Wear, 10.30

Nu-Swift, Grosvenor House Hotel, Park Lane, W., 10.30

Regalian Props., Chesterfield Hotel, 35, Charles Street, W., 10.30

Reject Shop, 20, Farrington Road, E.C., 12.00

Royal Mail, Runnymede Hotel, Windsor Road, Egham, 11.30

Staveley Inds., Hilton, Staveley Inds., Hilton, E.C., 12.00

BOARD MEETINGS:

Finals:

Academy (Robert M)

Mays

Platinum

Smith (David S)

Sutherland Hedges

Interims:

Derby Trust

Green Property

Hill & Smith

Ownens Inv. Trust

■ THURSDAY JULY 25

Grand Hotel, Leicester, 12.00

Barbican Int'l, Howard Hotel, Temple Place, Strand, W.C., 12.00

Boots, Queen Elizabeth II Conference Centre, 12.00

British Airways, 74th Floor, 1 Concorde Square, S.W. 1, 12.00

Body Shop (7.5p)

CPC 55c

Debenham's 74c

Woolwich Bldg. Soc. Fltg. Nts. Nra. 1995 £148.81

High Gosforth Park 15p

Hill Samuel Fltg. Rate Ns. 2016 £339.08

Martin Currie Euro. Inv. 1.1p

Swedbank (Kingdom of) 13.5pc Ln 2010 (Reg) 63.4pc

Texas Instruments 19cts

Treasury 123/4 pc Ln 67/4pc

Treasury 14pc 1998 7pc

Treasury 13 1/4 pc Ln 1997 5 1/2pc

Treasury 13 1/4 pc Ln 2000/01 5 1/2pc

Treasury 13 1/4 pc Ln 2000/02 5 1/2pc

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Treasury 13 1/4 pc Ln 2002/34 5 1/2pc

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Treasury 13

FINANCIAL TIMES

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Monday July 22 1991

BCCI: get the inquiry right

THE NATURE and scope of the inquiry into the events leading to the closure of the Bank of Credit and Commerce International, announced by the Chancellor of the Exchequer Norman Lamont last Friday, remain obscure. The danger is that the inquiry will not be broad enough to discuss the real issue, which is how such an international bank was controlled in several jurisdictions in a way apparently calculated to avoid close national supervision. If the focus is simply upon the decisions made by the Bank of England under the Banking Acts it is unlikely to be conclusive.

However, official inquiries can have many purposes. They may be designed to find out the truth of what happened. They may be intended to recommend changes in the legal and regulatory framework to avoid the same problems arising in future. Or they may be intended to deflect criticism and postpone any reckoning. In this case, it might be convenient for the government if the inquiry reported after the general election.

The closest recent UK precedent for an investigation of this kind is that which examined the collapse of the investment company Barlow Clowes in 1988, followed by a report by the Parliamentary Ombudsman. Those reports uncovered administrative failings at the Department of Trade and Industry, under already supervised legislation, which encouraged the government to offer compensation to investors. In the case of BCCI, tales of lost letters have evoked some of the same impression of Whitehall incompetence. But it is unlikely that the much more professional banking supervision department at the Bank of England will be found guilty of the same kind of simple blunders as the DTI. Rather, the inquiry might be put in the awkward position of trying to second-guess the decisions of sophisticated banking regulators with the benefit of hindsight.

Political complications

Moreover there are several layers of possible political complication. It looks likely that official intelligence organisations, including the CIA, found

The crisis in social work

SOCIAL WORKERS tend to hit the headlines only when scandals emerge over child abuse cases or repressive regimes in children's homes. All too often, the social worker is portrayed as a fresh-faced sociology graduate, full of woolly ideas about social engineering of the worst kind. In an era of receding state frontiers, social workers can easily be made to look like interfering but ineffective busybodies, whose services have become a shabby luxury we can afford to do without.

The result is predictable: a profession which is understaffed, underfunded and suffering an identity crisis. Today's report from the Association of Directors of Social Services makes bleak reading, with 10 per cent of field social worker posts unfilled, two few qualified entrants and some 2,500 field social workers – a tenth of the profession – without professional qualification.

If these figures were for nurses, there would be an outcry. Yet social workers play an equally important role, heightened by the move to shift care out of institutions and into the community. Field social workers are in the front line with children and young people at risk. And they are responsible for assessing the needs of elderly and disabled people – including growing numbers of older people with degenerative diseases.

Intractable cases

Residential social workers cope with similar groups in local authority homes, often the most intractable cases needing the highest quality care. Yet four out of five residential social workers are unqualified and there is a constant flow from residential work to the better-paid field social work posts which attract more kudos. No national figures are published on vacancies in residential homes, but many in London, for example, could not remain open without agency social workers. This turnover of staff is particularly debilitating in children's homes, where stability is a precondition for the sort of care which eventually saves money.

There are undoubtedly social workers who match the stereotype of the raw, theory-spouting graduate – like any other

profession, social work attracts graduate entrants. But only one in nine of those coming off social work training courses is under 25; over half are 30 or more and a quarter are over 40. There may be rather more of what the health minister Mrs Virginia Bottomley described as "street-wise grannies" entering social work than is commonly recognised.

Old myth

Mrs Bottomley's ideal social worker perpetuates the myth that the only qualification needed is common sense and a degree from the university of life. In fact the Department of Health now accepts the importance of training in raising the quality of social work, and has funded an additional 250 places a year on courses for the new two-year diploma in social work. This brings the total output of qualified social workers to over 4,600 a year, still short of the 5,000 places needed to meet current entry requirements. The social services directors say even this figure is too low: if all vacancies were filled tomorrow, the number of unqualified field social workers would double to almost 6,000.

Training must be increased, so that all new entrants are qualified and the overhang of unqualified social workers is progressively reduced. Local authorities could do more to encourage in-service training – there is wide variation between authorities in the numbers seconded for training. And with women making up 70 per cent of qualified entrants, those who leave to start a family should be lured back with flexible working arrangements so that their training and experience is not lost.

Raising the public esteem of social workers may be a long-term process. One solution under active consideration by an official working party is a professional structure for social work. This would establish a central council to determine professional standards, control entry to the profession and act on disciplinary matters – in much the same way as the professional bodies for nurses and midwives. The creation of such a body would significantly long overdue recognition of the importance of society to the social work profession.

Their lack of interest contrasts with attitudes in Japan. Indeed top machine-tool

Neglected history

■ Is there anything left of Britain's late and long lamented world leadership in developing the computerised machine-tool? Yes, says Curtis Sparks, who has just won a PhD at the age of 86 for his study of the history of the electronically controlled manufacturing systems now known as machining centres.

But he fears that the evidence of the UK's trail-blazing – in which he claims to have played a leading role – will soon be snapped up by the Japanese, who didn't jump on the computerised bandwagon until 20 years later.

The world's first numerically controlled machine-tool, he maintains, grew out of the somewhat drably named horizontal boring rig evolved in the 1920s and 30s by Lancashire company H.W. Kearns, which Sparks joined as an engineering apprentice in 1919.

The tool played a full part in the Second World War, helping to make things military in India, Canada and Australia besides Britain. Then, with the war over, Kearns' engineers set out to take the design further.

They eventually converted it to electronic control with the aid of a precision measuring system developed by the old British Thomson Houston company. The resulting technological wonder was bought by British United Shoe in Leicester in 1955.

It served well, too, for nearly two decades, its main inventor recalls, which makes what has happened to it since shameful. For in the mid-1970s the Leicestershire buyers donated it to the Manchester Museum where Sparks says it still languishes in the dimmed form it arrived in, the curators never having bothered to put it back together.

Their lack of interest contrasts with attitudes in Japan. Indeed top machine-tool

trends, or his unfortunate choice of employers during his 15-year stint at Wall Street.

He has certainly made some brilliant investment calls over the years. He spotted the peak in long-term interest rates at the start of the 1980s and got the timing of the latest US recession right. On the other hand he has probably worked for more investment firms that have either gone out of business or gone bust than most of his peers.

His skills will be welcome at BOT whose charmed status as "Japan's foreign exchange bank" will not be enough to keep the profits flowing in coming years. And while the bank says his succession to the chairmanship next June is not yet decided, it concedes that "we cannot say it is not a possibility".

■ It is hard to tell which is the more interesting point about Dreyfus Corporation's new chief economist Richard Hoey: his extraordinary track record in spotting economic

ups and downs

contrasts with attitudes in Japan. Indeed top machine-tool

Whatever consequences flow from the collapse of Bank of Credit and Commerce International, it is already certain to mark a watershed in international banking regulation.

After the initial shock-waves, bank supervisors everywhere are asking themselves the same question: how could a supposedly well-established regulatory system have permitted a \$20bn rogue institution to run amok through the world's financial markets? How could fraud on such a scale have escaped detection for so long? The result is bound to be another initiative to tighten international co-operation in supervising banks.

The BCCI collapse raises fundamental questions about the way in which global banks are regulated by national authorities. Indeed, one is bound to ask whether financial markets have not become so internationalised that the present segmented regulatory regime, loosely co-ordinated through a central bankers' club in Basle, is any longer appropriate.

This is by no means the first time that regulatory shortcomings have been exposed; indeed, all previous international initiatives in this area have occurred in the wake of financial calamities. The starting point was the collapse of Germany's Herstatt Bank in 1974, which led to the Basle Concordat in December 1975. This agreement, between the central bank governors of the main industrial countries (subsequently endorsed by other financial centres), introduced guidelines for the division of regulatory responsibilities between national authorities, one of the central principles being that the supervision of foreign banks should be the joint responsibility of parent and host authorities.

The collapse of Banco Ambrosiano's Luxembourg subsidiary in 1982 was the occasion of an underlying dispute between the Luxembourg and Italian authorities, who both claimed responsibility for supervising the Luxembourg entity (a holding company it is happening). Following the Ambrosiano affair an amended version of the Basle Concordat was signed in 1983.

The 1983 Concordat introduced two new regulatory principles. First, it sought to ensure the adequacy of supervisory standards within national jurisdictions by adopting a "dual key" approach in which parent and host authorities assess the quality of each other's supervision. Second, it focused on consolidation, whereby the parent authority must supervise a bank's worldwide operations, including foreign subsidiaries.

Under the dual key approach, if a host country considers that the supervision of parent institutions of foreign banks on its territory is inadequate it should prohibit or discourage the continued operation of such offices or alternatively impose specific conditions on the conduct of their business.

In addition, if the parent authority considers that the host authority's supervision is inadequate it should either extend its supervision to the degree that is practicable, or it should be prepared to discourage the parent bank from continuing to operate the bank in question.

In other words, each national supervisory authority must satisfy itself that banks' foreign operations are being conducted in jurisdictions with sound supervisory practices and that foreign banks to which it is host are subject to adequate supervision in their home jurisdiction. The intention was to reverse the tendency for banks to gravitate to the least-regulated jurisdictions with resulting "competition in regulatory laxity" between financial centres competing for foreign banking business.

This system should in theory ensure that supervisory standards are aligned on those of the most stringently regulated centres rather than vice versa. For that to happen, however, national authorities in the leading banking centres must be prepared to lock out foreign banks originating

from permissive jurisdictions and prevent their own banks from conducting international operations in such locations. In the light of BCCI it must be doubted whether this key element of the Basle framework is working.

The attempt to ensure adequacy of supervision is buttressed by the other significant innovation of the new Concordat – consolidated supervision. The Concordat states that "banking supervisory authorities cannot be fully satisfied about the soundness of individual banks unless they can examine the totality of each bank's business worldwide through the technique of consolidation". The idea is that overall supervision should be strengthened by having parent authorities supervise risks on the basis of banks' global operations.

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As long as the interests of the public are served by keeping the UK's electricity supply in state hands, there is no reason why it cannot be done.

The argument is also jeopardising the government's aim of introducing more competition into the electricity industry. It demonstrates the glaring need for a well-formulated national energy policy in the UK following the massive privatisation initiatives of the past six years, and it highlights the difficulties of turning state-run monopolies into fleet-footed private sector operators.

The argument could come to a head this week because British Gas will probably be forced by the Office of Gas Supply, the industry regulator, to cut its prices to power generators. But the problem has become so complex that legal action seems increasingly likely as the only way out of a battle that could drag on for months.

When British Gas decided recently to raise its prices to power customers by 36 per cent in March after being deluged with demand for gas from consumers planning to set up gas-fired power stations, it set off a bitter debate. Gas is the fuel of choice for new power generation projects because it is cleaner and cheaper than coal. But in such a low-margin business as power generation, demand is extremely price-sensitive.

Before British Gas raised its prices from 16p a therm to 22p a therm, it was faced with demand from 18 power projects for 6m tonnes of gas – equal to the size of the entire UK industrial and commercial market. "It was a staggering amount," said Mr Colin Playle, director for gas marketing.

The price rise was aimed at choking off demand: British Gas realised it could not possibly meet the power projects needs at the same time as continuing to supply its 20m domestic customers. The rise also passed on to the power generators the higher costs that British Gas had been paying for its own gas since November 1990. In fact, British Gas accounts reveal the company paid an average price of 16.5p a therm last year – before the government's tax levy which pushed its average price up to 18.2p. It was clearly unprofitable for British Gas to offer gas to power stations at 16p a therm.

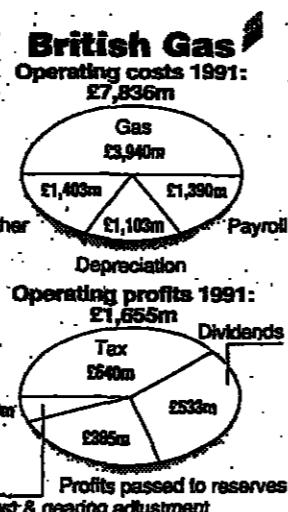
Although British Gas says its market forecasts are very sophisticated, it failed to anticipate the surge in demand from power customers. "We knew they were talking to other suppliers as well as us," said Mr Playle, "but we were never aware or understood that all

Price row leaves everybody fuming

Deborah Hargreaves says British Gas could face legal action over higher charges for generators



JAMES MCKINNON



ROBERT EVANS

that demand would suddenly switch to us."

The demand stemmed primarily from an earlier rise in gas prices by North Sea oil companies competing with British Gas. British power companies naturally gravitated towards British Gas in January and February, when its product was still cheaper. Because British Gas is forced by the government to signal its prices on a series of schedules, it was unable to stagger the rise or camouflage it in any way. The increase caught the power generators completely by surprise.

In addition, they were unable to acquire gas from overseas because the government has so far not sanctioned any imports.

The utility's price move caused a furor in the gas market. At least six power companies complained to Mr James McKinnon, the acerbic industry regulator who is director-general of Ofgas. He intervened on behalf of two power-generating projects which he deemed closest to completing a finance deal, and issued "enforcement orders" forcing British Gas to negotiate with them about supplying gas at the old price.

Thames Power, a joint venture between HICL, CU Power of Canada and Schroders, which has plans to build a station at Barking in east London, In a new twist to the saga,

and a Mobil-Eastern Electricity venture to build a station at Coryton in Essex have been in talks with British Gas since March. They accuse the utility of stalling in an effort to avoid reaching a price compromise. The talks have reached no conclusion.

Thames Power is now believed to have days rather than weeks in which to secure a power deal before its backers pull out of the £600m project.

The price increase by British Gas in March caught the power generators by surprise

In fact, British Gas does not want to secure an agreement with just these two companies for fear it will anger other companies that were also in price talks before the increase. PowerGen, one of the two UK power generators, has said it will sue British Gas if the two companies get a better deal than others. At the same time, Mobil, Eastern Electricity and Thames Power have all issued writs against British Gas and the utility has issued a writ against Ofgas.

Nevertheless, British Gas does have its own ambitions to enter the power generation

National Power, the other UK generator, said recently it was seeking a judicial review of the regulator's actions. Ofgas should not have limited its enforcement orders to just two companies, National Power argues. "We believe we have a better claim and others have comparable if not better claims," says Mr Colin Webster, commercial director.

National Power's move seemed ironic to the other independent power companies because they largely blame the generator for British Gas's price rise in the first place. National Power's conclusion of a deal in February to take 120m cubic feet of gas a day for 15 years for its Didcot power station was widely seen as precipitating the price rise because it tied up such a huge amount of gas. National Power says it wanted even more gas; it was ready to sign for the same amount again when it was hit with the price rise.

Some independents see the current dispute as the symbol of a deeper conspiracy. They believe that a cosy relationship exists between British Gas and National Power to force independent generating companies out of the market – a charge that is hotly denied by both.

In a new twist to the saga,

market, and recently revealed plans to build a 1,200 Megawatt gas-fired station at Avonmouth near Bristol in conjunction with Midlands Electricity. Similarly, National Power wants to get into gas exploration and production. It was awarded two exploration blocks as part of a group of companies in the most recent North Sea licensing round. Some independents point to these respective ambitions as evidence of a growing strategic relationship between British Gas and National Power.

The Office of Electricity Regulation is now believed to be looking into the entire power generating issue with a view to deciding whether the large generating companies are abusing their huge market clout.

British Gas is trying to find a way out of the mess without recourse to the courts. Ofgas says it is pushing the utility to behave in a more entrepreneurial way. Mr McKinnon believes there is more gas available in the market than British Gas has so far admitted.

Indeed, British Gas is not sure that it wants to supply the power generators at all. "British Gas did have to give very careful consideration before entering this market," Mr Playle said. "This is a high volume, inflexible business because it ties up gas for 15 years... so British Gas did not initially see itself as a major supplier in this market."

However, Ofgas points to the British Gas statute that requires it to respond to any reasonable request for gas as long as this is economic. If Ofgas does force British Gas to lower its prices, it will have to do so in a way that does not re-open the dogfights to huge demand and yet ensures that prices remain high enough to generate profits. This fine calculation is causing much anguish at the utility.

What the dispute certainly highlights is the government's lack of a clear energy strategy now that most main energy suppliers are in the private sector. Mr John Wakeham, energy secretary, has exerted pressure behind the scenes for companies to continue negotiating rather than resorting to litigation. But while the government is eager to see new generators competing in the electricity market, it seems reluctant to sanction gas imports from Norway which would enable them to do so.

If the row over gas prices degenerates into a complex round of lawsuits, it could have the important effect of pushing the government to reconsider its laissez-faire approach to energy.



In the 1988 presidential election, George Bush made headway against his Democratic opponent by targeting him with the "I" word.

Mr de Jasay, however, makes a brave attempt to present liberalism as a rigorous set of deductions from principles which are either self-evident, indisputable or at least make a strong appeal to intuition. He tries to get round the point that most liberals value not only freedom but other goals, such as peace and prosperity, by switching the emphasis from freedom to individual choice, which can comprise the latter. He has six principles; the first three he calls "axioms of choice", the final three "precepts of social co-existence".

1. **Individualism.** Only individuals can choose.

2. **Politics.** They can choose for themselves, for others, or both.

3. **Non-domination.** The point of choosing is to take the preferred alternative.

4. **Contract.** Promises shall be kept.

5. **Priority.** "First come, first served."

Democracy meaning majority voting is just a convenient decision rule which can be coercive

6. **Exclusion.** All property is private.

By the first axiom he means roughly that Mrs Thatcher meant in saying that there is no such thing as society, only individuals and their families. There is nothing selfish or small-minded in basing politics on the choices of individual people, who alone can sympathise with, and help other individual people. Where Mrs Thatcher's vision fell short was that she did not see that if there was no society, there was no country or nation – nations to which she is attached.

The second principle is a concession to the occasional need for collective action, which, unless it can be limited, torpedoes the other principles. The author has in previous works argued that many activities which most economists have considered to be public can be provided on a voluntary

basis, under any such provision, it fails to be treated for the purpose of the Income Tax Act as income of any person resident or ordinarily resident in the United Kingdom.

13. Until payment in full has been made and a completed registration form submitted to the Bank of England, the loan (other than amounts held in the CGO Service for the account of members) will be represented by letters of allotment.

14. Payment in full may be made at any time prior to 8th September 1991 but no discount will be allowed on such payment. Interest may be charged on a day-to-day basis on any overdue amount which may be accepted at a rate equal to the London interbank offered rate for seven-day deposits ("LIBOR") plus 1.5 per cent per annum. Such rates will be determined by the Bank of England by reference to market quotations, on the due date for the relevant payment, for LIBOR obtained from such source or sources as the Bank of England shall consider appropriate. Default in due payment of any amount in respect of the loan will render the allotment of such loan liable to cancellation and any amount previously paid liable to forfeiture.

15. Letters of allotment may be split into denominations of multiples of £100 on written request to the Bank of England, New Issues, Southgate House, Gloucester, GL1 1UW received not later than 5th September 1991. Such requests must be signed and must be accompanied by the letters of allotment (but a letter cannot be split if any payment is overdue).

16. Members of the CGO Service may subject to the provisions governing membership of that service surrender a partly-paid letter of allotment to the CGO for cancellation and for the amount of the letter of allotment to be credited to the account of the member. The member who is shown by the account of the CGO as being entitled to any amount of the loan shall, to the exclusion of all persons previously entitled to such loan and any person claiming any entitlement thereto, both be treated as entitled to such loan as if that member were the holder of a letter of allotment and be liable for the payment of any amount due in respect of such loan. A member will be entitled at any time prior to registration to withdraw, in multiples of one penny, amounts of the loan credited to the member's account and to pay back partly or in full or全部 of such loan. Such member shall be liable for the payment of all amounts becoming due thereafter in respect of such loan unless and until that letter of allotment is surrendered to the CGO for cancellation as aforesaid.

17. Letters of allotment must be surrendered for registration, accompanied by a completed registration form, when the final instalment is paid, unless payment in full has been made before the due date in which case they must be surrendered for registration not later than 9th September 1991; registration of amounts of the loan held for the account of members of the CGO service will be effected under separate arrangements.

18. Until the close of business on 10th December 1991, stock issued in accordance with this notice will be known as 9 per cent Conversion Loan, 2011 "A". The interest due as on 12th January 1992 will be paid quarterly in arrears on the 12th January each year. On 12th January 1992 and on 12th January each year thereafter interest on stock will be remitted by post. Income tax will be deducted from payments of more than £5 per annum. Interest on bonds to bearer, less income tax, will be paid by coupon.

8. Stock will be interchangeable with bonds without payment of any fee.

7. Interest will be payable half-yearly on 12th January and 12th July. The first interest payment will be made on 12th January 1992 at the rate of £2.650 per £100 of loan. Subsequent interest on stock will be remitted by post. Income tax will be deducted from payments of more than £5 per annum. Interest on bonds to bearer, less income tax, will be paid by coupon.

8. Stock and bonds of this issue and the interest payable thereon will be exempt from all United Kingdom taxation, present or future, so long as it is shown that the stock or bonds are in the beneficial ownership of persons who are neither domiciled nor ordinarily resident in the United Kingdom of Great Britain and Northern Ireland.

9. Further, the interest payable on stock and bonds of this issue will be exempt from United Kingdom income tax, present or future, so long as it is shown that the stock or bonds are in the beneficial ownership of persons who are not ordinarily resident in the United Kingdom of Great Britain and Northern Ireland.

10. For the purposes of the preceding paragraphs, persons are not ordinarily resident in the United Kingdom if they are registered as not ordinarily resident for the purposes of United Kingdom income tax.

11. Applications for exemption from United Kingdom income tax about the issue of interest on stock, to be made in such form as may be required by the Commissioners of Inland Revenue. Bearer bond coupons will be paid without deduction of United Kingdom income tax if accompanied by a declaration of ownership in such form as may be required by the Commissioners of Inland Revenue. The appropriate forms may be obtained from the Inspector of Foreign Dividends, Inland Revenue, Lyndhurst Road, Thames Ditton, Surrey KT7 0DP.

12. These exemptions will not entitle a person to claim repayment of tax deducted from interest unless the claim for such repayment is made within the time limit provided for such claim under section 43(1) of the Taxes Management Act 1970. No such claim will be outside the time limit if it is made within six years from the date on which the interest is payable. In addition, these exemptions will not apply so as to exclude the interest from any computation for taxation purposes of the profits of any trade or business carried on in the United Kingdom. Making such allowances for the exemptions is subject to the provisions of any law, present or future, of the United Kingdom directed to preventing avoidance of taxation by persons domiciled, resident or ordinarily resident in the United Kingdom, and, in particular, the interest will not be exempt from income tax.

13. Transfers of 9 per cent Conversion Loan, 2011 "A" may be lodged at the Bank of England for registration in their form up to 6th December 1991. After that date, for purposes of certification, the stock will not be distinguished from the existing 9 per cent Conversion Loan, 2011 "A". The interest due as on 12th January 1992 will be paid quarterly in arrears on the 12th January each year. On 12th January 1992 and on 12th January each year thereafter interest on stock will be remitted by post. Income tax will be deducted from payments of more than £5 per annum. Interest on bonds to bearer, less income tax, will be paid by coupon.

14. Copies of this notice may be obtained by post from the Bank of England, New Issues, Southgate House, Gloucester, GL1 1UW; at the Central Gilt Office, Bank of England, 1 East Buildings, Princes Street, London, EC2R 8EU or at any of the Branches or Agencies of the Bank of England; at the Bank of Scotland, Moat Lane, 1st Floor, 20 Calender Street, Belfast, BT1 5BN; or at any office of The International Stock Exchange in the United Kingdom.

Governor Statement
Attention is drawn to the statement issued by Her Majesty's Treasury on 29th May 1985 which explained that, in the interests of the orderly conduct of fiscal policy, neither Her Majesty's Government, nor the Bank of England or their respective servants or agents undertake to disclose tax changes decided on but not yet announced, even when they may specifically affect the terms on which, or the conditions under which, this loan is issued or sold by or on behalf of the Government or the Bank; that no responsibility will be accepted for any omission made in such disclosure; and that such omission shall neither render any transaction liable to be set aside nor give rise to any claim for compensation.

BANK OF ENGLAND
LONDON

19th July 1991

Samuel Brittan

Liberalism from first principles

I suspect that the biggest weakness is in the fifth principle. This is meant to overcome the long-standing weakness of liberalism: the absence of a theory of just property rights. It is indeed more realistic than John Locke's theory about property being derived from labour or Robert Nozick's unexplained concept of just acquisition; and it sounds very robust when illustrated by the example of a 10-pound note belonging to the first person who picks it up. But it amounts to justifying any distribution of wealth which happens to exist. It is not appealing enough to provide the bar to collective redistribution which the author would like.

It is in the end impossible to judge the fruitfulness of these principles until their implications for particular instances have been elaborated. Nothing would do the author a greater injustice than to claim – as some Institute of Economic Affairs readers might – to accept his principles and then discuss mundane issues such as industrial training or trade policies in a way which completely flouts them.

Although I have learned a lot from de Jasay, I doubt whether an axiomatic approach to liberalism, or political theory in general, will work. If I wanted to explain the characteristic virtues of liberalism to someone in eastern Europe or from a Latin country I would suggest yet another new book" by the Brazilian JG Mergui. This last author takes an avowedly historical approach, and sees as the common feature among many different liberal thinkers the recognition of the rights granted by majorities to minorities. The statement may not be rigorous, but it takes in an awful lot. Liberals are not so thick on the ground that they can afford to confine recognition to the band of an elect.

1. *Choice, Contrast, Consent, IEA, 1991, £2.95*

2. *A Conservative Disposition, Centre for Policy Studies, 1991*

3. *A Restatement of Economic Liberalism, Macmillan, 1982*

4. *Liberals Old and New, DK Hall, Philadelphia, 1991*.

Role of IBM and others in the Merlin programme

From AB Cleaver.

Sir, Your article "Helicopter contract lobbying stepped up" (July 16) on the Ministry of Defence's competition to find a prime contractor for the Merlin programme contains several statements which might mislead your readers.

The article implies that the company chosen as the prime contractor will assume responsibility for worldwide marketing. This is not true. The ERIOL is developed and marketed by ERI Industries (ERI), a company jointly owned by Westland and Agusta. It is for ERI to market the ERIOL not, as is suggested, for IBM, British Aerospace or GEC.

The article also speculates that the US government might seek to place restrictions on UK export sales because of prior US government funding of certain IBM software. The fact is that Merlin will use

existing software which is already under development in the UK. It is specific to Merlin and does not rely on any existing IBM software.

As regards job prospects, the ERIOL proposal places well over 98 per cent of the business in the UK. There is essentially no US export content. It is envisaged that all the existing subcontractors (including GEC-Avionics, GEC-Sensors, GEC-Ferranti and Recal) will be retained. The net effect would be an increased workload for Westland's skilled engineering staff and the transfer to the UK of highly specialised expertise.

In conclusion, I would point out that IBM was invited to participate in the competition because of our proven expertise as demonstrated by our successful delivery of the US Navy's anti-submarine warfare helicopter on time, to price and to specification. We are com-

INTERNATIONAL CAPITAL MARKETS

SECTION III

Monday July 22 1991

TOP A huge drop in the flow of Japanese capital means that hungry companies and nations must be weaned off Tokyo's money — at a time when savings around the world are in short supply. Financial institutions face a new round of changes. Richard Waters reports

Reforms are long overdue

ITS DEMISE was as sudden as its emergence. The flow of Japanese capital, which had driven international financial markets for much of the 1980s, was largely turned off last year. After the years of plenty, capital markets had entered the new decade with a bump.

The scale of the turnaround has been significant. Investments in foreign bonds and equities by the Japanese fell to just \$40bn in 1990, from \$113bn the year before.

At the same time, Japanese banks' share of new international bank lending (in dollar terms) dropped from 36 per cent to 19 per cent.

Leaving aside the effects of exchange rates, new lending by Japanese banks was only one third its level of the previous year.

Forces which had helped to keep securities prices up and loan costs down had suddenly been removed.

Two factors lie behind this sudden shift. First, high Japanese interest rates made US Treasury bonds less attractive to Japanese investors.

Second, the reverberations of the 1989 Tokyo stock market fall — and its effect on the capital of Japanese banks and the resources of Japanese invest-

tors — are still likely to be felt for some time to come, even if Japanese share prices fall no lower.

The growing propensity of the Japanese to spend more and save less, as well as just to get older, also means that Japanese savings will become a less powerful force in the world financial markets.

Weaning capital-hungry

markets (and companies) off Japanese money will not be easy — particularly at a time when savings around the world are in short supply.

For 30 years, savings rates have fallen in most developed countries.

The British and Americans are famous for their inability to save. In the UK during the 1980s, net savings amounted to 5.5 per cent of national income; half the proportion of the 1960s. In the US, the fall was steeper, from 11 per cent in the 1960s to just 4 per cent.

This trend was echoed elsewhere in different degrees. The Germans, who put aside 20 per cent of their income during the 1960s, managed to save only 11.6 per cent during the 1980s. The Japanese savings rate fell from 25.2 per cent to 20.9 per cent over the same period.

The demand for capital,



meanwhile, is set to increase.

New investment in Eastern Europe, the rebuilding of Kuwait, the continuing needs of developing countries, and investment by companies as the US and UK come out of recession — all point to a strong demand for capital in the medium term.

One other factor has made investment capital more difficult to come by. Banks around the world, but particularly in the US, are smarting from the knocks they have taken on real estate lending and highly geared transactions.

At the same time, they are working towards the full implementation by 1993 of the minimum capital adequacy standards laid down by the grouping of central bankers meeting under the auspices of the Bank for International Settlements in Basle.

The result: claims of a "credit crunch" as any but top-grade borrowers find it increasingly difficult to raise money

from their bankers.

In the longer term, the capital adequacy rules are unlikely to affect the supply of good credit.

As the BIS says in its latest annual report last month:

"There may indeed now be a greater awareness of the capital ratio implications of portfolio decisions, but that is precisely what was needed."

"It could lead to longer-term problems of credit availability only if circumstances were to deny a large number of banks access to additional capital, which is only conceivable if bank profits remain under severe pressure over a prolonged period."

Such statements, however, will give little comfort to bank customers which need credit now if they are to have any kind of long term future to look forward to.

As implied in the BIS's report, the financial industry itself is set for a prolonged period of consolidation. During

the 1980s, deregulation and the ready availability of credit led to a drive by financial intermediaries for growth and market share. Now, attention has switched to profitability and consolidation.

Profitability in both the banking and securities industries is in serious need of repair.

The return on assets of US banks in 1990, for example, halved to 0.78 per cent (excluding the effects of provisions against bad loans). Japan's city banks, meanwhile, experienced a decline from 0.82 per cent to 0.58 per cent.

Two months ago, Mr Gerald Corrigan, president of the Federal Reserve Bank of New York, told the US Senate committee on banking, housing and urban affairs: "Whether we like it or not, we are going to see an important degree of consolidation in the US banking and financial system. That result, as I am prone to say, is already baked in the cake."

Several weeks later, the biggest planned banking merger in recent US history was announced: the combination of Chemical Bank and Manufacturers Hanover to create the country's second largest banking group.

In Japan, such mergers have been underway for longer since the creation of Dai-Ichi Kangyo Bank, the country's largest.

In the securities industry,

the damage to recent profits has been greater. Japan's big four brokers suffered falls in pre-tax profits last year ranging from 52 per cent (Nomura) to 72 per cent (Nikko).

New York Stock Exchange members slipped to a combined \$128m loss, their worst performance since 1973 and members of the London Stock Exchange sustained a combined loss of £350m.

While this year has brought better news, the continuing uncertainty in securities markets and few outright with-

drawals by securities houses suggests that further cost cutting and redundancies will follow.

As they recover from the deregulation and excesses of the 1980s, meanwhile, many financial institutions can look forward (if this is the right phrase) to a new round of change.

In both the US and Japan, long-awaited initiatives have been launched which could lead to the ending of divisions between the banking and securities industries.

In both countries, commercial banks have been allowed progressively into the securities business, through the establishment of full-service securities subsidiaries abroad and the admission to restricted classes of securities business at home.

The final step will be the biggest: allowing commercial banks into the underwriting and broking of domestic issues — although even here, the barriers have started to come down.

Neither country looks likely to move rapidly towards reform of their respective laws, despite the plead of reformers. Mr Corrigan of the Fed has argued that the future competitiveness of the US banking and financial system depends on the necessary process of consolidation, cost reduction, and diversification.

The recent financial scandals which have afflicted Japan's leading stockbrokers firms also point to the need for deep-seated reform of that country's financial system. The display of public remorse that accompanied the admitted links with gangsters and the compensating of favoured clients for stock losses suggested that the Japanese brokers were keen to change their ways.

It remains to be seen whether anything has changed — or whether it will take more profound structural developments in Japan, such as the ending of minimum commissions and the development of a strong, independent fund management industry, to bring about lasting change.

To quote Mr Corrigan, commenting on the US: "Prompt and comprehensive reform of the banking and financial system is long overdue."

IN THIS SURVEY

■ Government bonds: International investors have benefited from developments in the global markets: deregulation has opened fresh arenas and bondholders have found there is even a silver lining to a recession

■ New technology: With the move towards electronic market places, the trading floor — spiritual home of the capital markets — may not outlive the decade Page 2

■ International markets: Companies worldwide have turned to the equity markets again to raise new capital as global financial markets regained some stability after the Gulf war

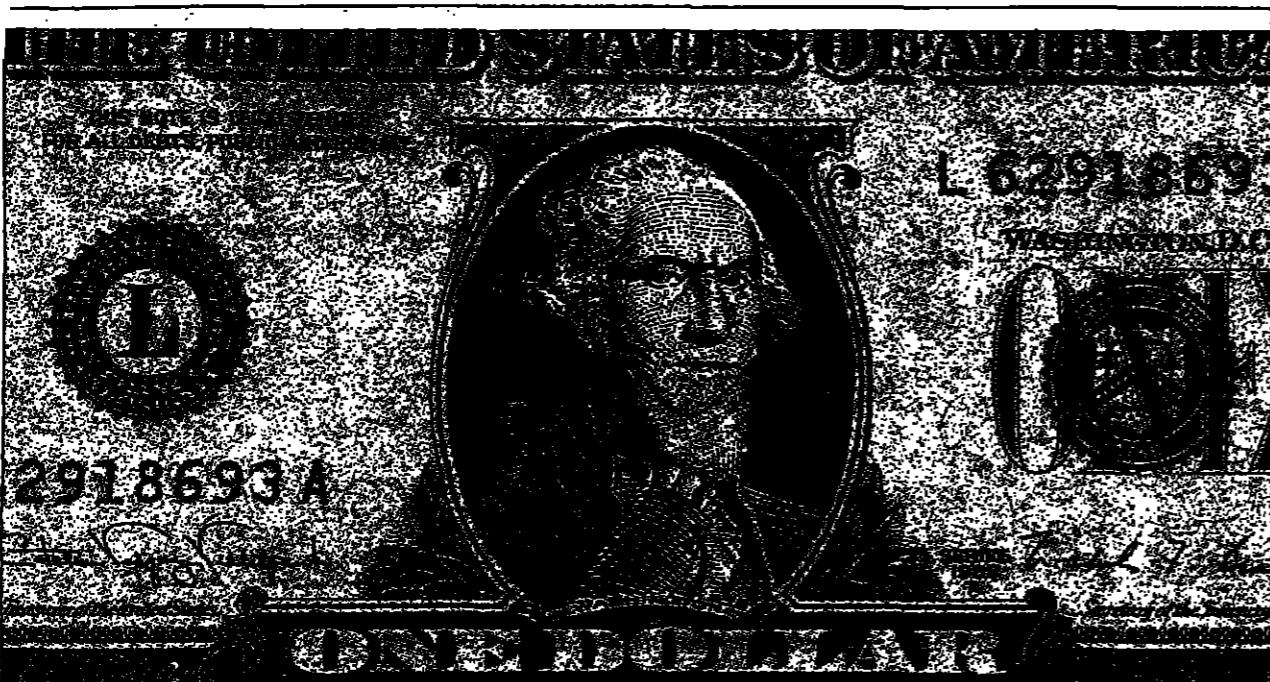
■ Derivatives: As derivatives have become more common, competition among the exchanges that trade them has grown. The competition has also spawned co-operative alliances Page 3

■ Regulation: Everyone agrees on the need for greater international coordination to guard against a systemic collapse in securities markets. But finding an international framework is not easy

■ Securitisation: European securitisation is a market much tipped for growth, but the surge of activity predicted by proponents of the market has yet to materialise Page 4

■ Emerging markets: While the stock markets of the developed world have stagnated, many emerging markets are forging ahead Page 5

■ Editorial production: Phil Sanders



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INTERNATIONAL CAPITAL MARKETS 2

Richard Waters looks at the implications of new technology

Farewell to the trading floor as markets plan automation

INTERNATIONAL markets are disembodied markets. The result, as capital has become more international, is a move towards electronic market places to bring together providers and users of investment money. The spiritual home of the capital markets – the trading floor – may not outlive the decade.

On both sides of the Atlantic, market automation is being planned on a large scale. It is both defensive and aggressive.

Old trading practices, subjected to competition for the first time, are being over-

Europe already has an international equity marketplace.

Ironically, it is among the most low-tech of all capital markets

hauled.

New opportunities, as companies seek to raise money internationally (and investors to invest it), are being exploited.

Europe already has an international equity marketplace. Ironically, it is among the most low-tech of all capital markets.

The UK's telephone-based share market, supported by the Sean International price display system, traded £147bn of foreign equities last year, up from £25bn the year before and £40bn in 1988. These figures exaggerate the real growth rates: market users did not have to report trades to the London Stock Exchange until two years ago. About two thirds of the turnover is related to European stocks.

Sean International may have attracted business, but it is not the final word in cross-border automated dealing.

The system, launched on a shoestring budget six years ago, needs a complete revamp. It also needs to offer its users more than simply a view of quoted prices of other market users – for example, trade confirmation and links into cross-border settlement arrangements.

If Sean International has

offered Europe a vision of the future shape of the cross-border equity markets, then continental Europe has seemed very slow to pick up on the idea.

The progress towards economic and monetary union, and the abolition of trading and other barriers within the EC, suggests that equity investors will come to view the Community as a single investment market. National bourses have so far failed to agree on a single trading infrastructure to support this market.

In part, this is because the idea is before its time. Market users are not yet demanding a better international marketplace.

Some sophisticated fund managers and brokers actually prefer fragmented, inefficient markets: it gives them more of a chance to make a living, using their skills to pick out the investment and arbitrage opportunities others miss.

As long as they can pass on the extra costs of doing business internationally through specific charges to their customers (as many fund managers do), there is little pressure on them to demand a better market infrastructure.

Another powerful force against co-operation between national markets has been the

The US faces similar upheaval to Europe as its stock markets take on domestic and international competition

competing ambitions of different European financial centres.

For 18 months, talk of co-operation veiled only thinly the competition that has really been driving market developments.

When joint venture talks between the national bourses were put back to square one this summer, it was no surprise to find national stock market initiatives emerging rapidly to fill the vacuum. The likely result: trading floors, where they still exist, will be superceded by electronic

marketplaces. Within recent weeks, the Frankfurt Stock Exchange announced an initiative to bring together the federal German exchanges under one national bourse, with a new infrastructure to support the market.

In Paris, French stock market professionals have been pressing for an overhaul of trading practices to help their bourse compete internationally.

And in London, a strategic rethink of the national stock market is near completion.

The New York Stock Exchange and American Stock Exchange have moved towards opening for longer hours

Grand talk of international co-operation and harmony is unlikely to recur for some time. If the development of a pan-European market infrastructure has come to nothing, then the same is true of a plan to link the trading markets of Europe and the US, courtesy of the London Stock Exchange and the National Association of Securities Dealers (NASD).

The NASD's quote-driven market, Nasdaq, was the model for London's Sean system, and both are now in need of rebuilding. However, talks on co-operation to develop a common technological base – perhaps leading to a joint international equity market – fell through this spring.

The US faces similar upheaval to Europe as its stock markets take on the challenge of competition, both domestic and international. The battle is being fought in two ways. In the short-term, the US trading day is being extended – electronically – by floor-based exchanges which fear they are losing ground to competing electronic markets.

Both the New York Stock Exchange and American Stock Exchange have moved towards opening earlier in the day and

closing later. The extra business they hope to win will not be channelled through specialists, the people who oil the wheels of the floor-based trading mechanisms, but will be managed electronically.

In the longer term, both markets – and the NASD – plan to open throughout the European trading day. Full-scale, 24-hour trading without the use of market floors is on the horizon. If these initiatives are a success – and offer cheap, efficient dealing for investors – what future can there be for the trading floors during the trading day?

The increased competition between equity markets is mirrored in derivative markets. The result, predictably, has been the same: a plethora of grand plans for 24-hour electronic trading systems. Many may never be built, or will fail to generate enough business to justify their investment. But the pace of development seems unstoppable.

It is too early to say whether these developments will work to the advantage of market users. To the extent that they create new opportunities for raising money or investing it more effectively, they will be welcome. But they also present new problems for regulators which are a long way from being solved.

For a start, fans of floor-based markets complain that trading floors provide the best possible price-setting mechanisms, which cannot be replicated electronically.

That may have been true as long as trading floors remained the centre of trading activity, helping to concentrate orders and so achieve the best prices for investors. But with an increasing amount of business done off-exchange, the argument for trading floors is weakened.

A second (and more telling) complaint is that the multiplicity of electronic trading systems, and the lack of transparency in some markets, makes it difficult to ensure that investors get the best deal – particularly small investors. Regulators are only beginning to grapple with this problem.



Traders at the Tokyo stock exchange: international investors have a growing number of government bond markets

■ GOVERNMENT BOND MARKETS

International investors find a silver lining

INTERNATIONAL investors have benefited from recent developments in the global government bond markets for two reasons. First, as the tentacles of deregulation spread around the globe, international investors have found it easier to invest in a growing number of government bond markets.

Secondly, bondholders recognise that there is a silver lining to a recession as interest rates are cut in order to stimulate the economy. Bond prices rise as interest rates fall, thus providing investors with capital gains.

After Iraq's invasion of Kuwait last August, the sharp rise in oil prices prompted fears that inflation in the western economies would rise. Bond prices rose and long-term yields fell, measured between 50 and 150 basis points for the main bond markets.

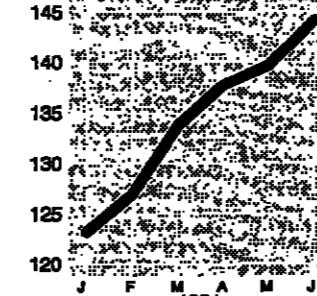
However, the fears proved short-lived. Interest rates remained stable during the fourth quarter in Germany and Switzerland, eased in Belgium and France, and fell sharply in the US, Japan and UK. Settling at the Washington meeting, the Bank for International Settlements in its 61st annual report.

The fall in interest rates continued in the first quarter of this year and many of the leading industrialised countries have emphasised the need to lower interest rates further.

However, Germany remains the odd man out. When representatives of the Group of Seven leading industrialised countries met in Washington in April, the US put considerable pressure on Germany to

J P Morgan Government bond Index

Dec 31, 1987=100



cut interest rates as soon as possible. Unfortunately, rising inflation in Germany has led to concern that the Bundesbank may be forced to raise interest rates, or at least to hold interest rates at a high level until inflation starts to fall.

Germany aside, the other members of the Group of Seven main industrial countries emphasised the need to lower real interest rates and promote world growth at the Washington meeting and this trend seems likely to continue, albeit at a slower rate.

Even Japan, which has held interest rates at historically high levels in order to curb inflation, cut the Official Discount Rate from 6 per cent to 5.5 per cent at the beginning of July.

The fall in interest rates over the past nine to 12 months has led to a surge in certain bond markets, providing international investors with capital gains on their bond portfolios.

Today, those bond portfolios

are likely to consist of a far broader range of securities as more government bond markets have opened up and courted foreign buyers.

For example, both Spain and Italy deliberately increased their appeal to foreign buyers by extending their debt maturity profiles and easing procedures for foreigners to reclaim witholding tax on government bonds.

These are important changes: foreign investors like to be able to invest in long-dated bonds and to receive the income gross rather than net of witholding tax. In many cases they had been deterred from participating in the Spanish and Italian bond markets because the rules governing the reimbursement of witholding tax to non-resident investors were complicated and lengthy.

Investors have been attracted to both the Italian and Spanish bond markets because they expect to see the convergence of interest rates in Europe for those currencies which are members of the Exchange Rate Mechanism of the European Monetary System.

In the long term, monetary ties within Europe are expected to force bond yields towards those of Germany, the mainstay of the European monetary system.

The attraction of investing in a currency which is in the exchange rate mechanism of the EMS is that the exchange rate risk for a European investor is greatly reduced, while the investor can still expect to see bond yields fall and make a capital gain on the investment.

However, the convergence argument has its problems – short-term movements in the opposite direction do occur, as was seen recently in France. There, worries about the appointment of Mrs Edith Cresson as prime minister unsettled the bond market and led to a sharp rise in French government bond yields.

Investors have been attracted to both the Italian and Spanish bond markets

As more and more government bond markets have opened up to foreign investors, the demand for detailed research has increased: now investors as diverse as Japanese bond fund managers and European pension fund managers want research on markets including Spain, Italy, Scandinavia, Portugal, Belgium and even such undeveloped markets as Greece.

With these second-tier countries, investors try to take advantage of the market's inefficiency when it comes to taking economic and financial data into account. The hunt for high-yielding markets continues.

Sara Webb

Tracy Corrigan examines the growth of the Ecu bond market

European governments help transformation

THE Ecu bond market has grown from a small retail-based market, driven by swap opportunities, to a widely-traded institutional market which may be set to become the largest European debt market later this decade.

In the past 10 years, the outstanding amount of Ecu bonds has grown from Ecu250m to Ecu70bn, according to JP Morgan.

Secondary market turnover through the European clearing houses Cedel and Euroclear reached nearly Ecu100bn in March. In the first six months of this year, the volume of new issues in the sector rose to more than \$21bn equivalent – more than double the volume during the first half of last year – to become the second most active currency sector in the Eurobond market.

European governments, keen to demonstrate their political commitment to the currency, have been a catalyst for the market's transformation.

The UK government made a successful debut £2.5bn issue in February. France, Italy, Belgium, Denmark, Finland, Norway, Sweden, Spain, Greece, and supranational institutions such as the European Community and the European Investment Bank, have all tapped the Ecu bond market.

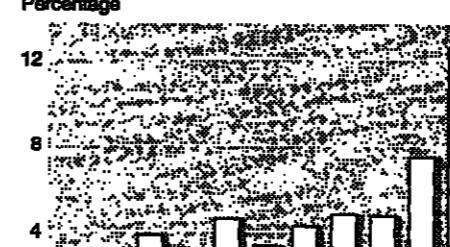
Many deals were not swapped, as swap market rates were not favourable, and most issuers are borrowing in Ecu for more political than practical reasons.

In the past, most borrowers had no requirement for Ecu funds, but they were able to swap Ecu funding into another currency at attractive rates – often through swaps generated by the Italian government's domestic Ecu issuance.

Some houses may be able to find some profitable niche business. For example, most Japanese houses appear to be concentrating on distribution of Ecu products in the Far East. But dealers say that several of

Ecu share of new issue volume

Percentage



Source: IFR Bonds

the Japanese houses which rushed to seize a piece of the market are now in action. Nevertheless, liquidity has advanced dramatically and benchmark issues for the UK, the EEC and Italy, as well as the French government's Ecu Obligations Assimilables du Trésor (OATs) are extremely liquid and can be used for "repos" (repurchase agreements, used for short-term borrowing and lending to cover positions).

Such issues trade on a 10-basis point spread between bid and offer prices; in a deal such as the UK's Ecu2.5bn issue, the spread of Ecu25m can be conducted on a 5-basis point spread, dealers said.

But the market has been relatively quiet in recent weeks as the Ecu bond market looks quite expensive, in spread terms, against the French and German bond markets.

The market also appears costly against the synthetic yield curve – calculated by studying the yields of component currency bond markets. Dealers can create exposure to the Ecu synthetically, by buying component markets.

Ecu bond futures contracts are now traded on two European exchanges: the Matif in Paris and Liffe in London. The Matif gained a competitive advantage by launching its

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INTERNATIONAL CAPITAL MARKETS 3

There are reasonable grounds for optimism among intermediaries, writes Simon London

Eurobond market of feasts and famines

FIRMS active in the Eurobond market continue to operate in a market characterised by feast and famine. Periods of intense new issue activity are still interspersed with periods when few bond syndicates are covering their fixed costs.

The longer-term record of famine came ahead of the Gulf conflict, which caused institutional investment decisions to be postponed. Yet despite this period of paralysis, recession and an expectation of lower interest rates in many countries have since made bonds attractive on cyclical grounds. Once the threat of a large-scale regional conflict was seen to recede, the supply of new paper and demand from investors both began to recover.

Hence the first six months of this year have been profitable for most intermediaries operating in the primary market. The volume of new issues grew 50 per cent, from just under \$90bn in the first six months of 1990 to \$121bn in the first half of this year.

In addition, the Eurobond

industry has achieved some structural improvements which leave it better positioned to benefit when new issue activity is strong.

There has been a concerted and co-ordinated effort to restore commissions, through the use of the fixed-price re-offer mechanism. The diminishing number of players in the primary market has partly relieved chronic overcapacity.

There has been a concerted effort to restore commissions, through the use of the fixed-price re-offer mechanism. The diminishing number of players in the primary market has partly relieved chronic overcapacity.

One view is that each currency sector of the market is

the subject of "cartelisation" by the big players, which is squeezing out smaller firms.

There are informal agreements among the main players in the dollar, Ecu and sterling sectors of the market as to the appropriate levels of return or new issues. Leading houses have often declined to participate in deals which were seen

as being too thin a level of fees. In addition, the establishment of the fixed price re-offer mechanism is often seen to favour firms with strong institutional placement power.

Retail-oriented firms prefer to sell bonds at issue price, retaining full fees as profit, rather than selling at the lower fixed re-offer price set by the lead manager.

Since its introduction into

the Eurobond markets from the US in 1989, the fixed re-offer method of syndication has been extended to new areas of the market. For example, the Euroline bond market has become increasingly dominated by big institutional investors and the fixed price re-offer mechanism has become established as the normal method of syndication.

New issue statistics suggest that there has been a concentration of power over the past six months.

An analysis of new issues, excluding equity-linked transactions, in the first six months of the year showed that the top five Eurobond firms took 37.5 per cent of all new business by value. This compares with 27 per cent in the whole of 1990, 29 per cent in 1989 and 31 per cent in 1988.

Equally, the top 10 firms took 55 per cent of new business in the first half of this year, against 45.5 per cent in 1990 and 49 per cent in 1988. These figures do suggest that the balance of power shifted in

favour of a few big firms. However, the statistics may be skewed by the dominance of big, liquid bond issues by sovereign and supranational investors in the first three months of the year. Recently, smaller corporate borrowers have returned to the market, spreading business among more firms.

Hence, the evidence in favour of cartelisation is, as yet, inconclusive. Only time will tell whether the dominance of the big firms will be consolidated – or eroded as a greater diversity of borrowers enter the market.

Even among the biggest firms, competition is intense. Nowhere is this more true than in the Ecu sector, which has continued to develop rapidly. New bond issues totalled \$20bn in the first half of this year, against \$10.7bn in the same period of 1990. In the first quarter, the aspiring single European currency came close to squeezing out the dollar as the favourite of the international bond market. However, there

are now 36 firms making markets in Ecu bonds, against 24 firms a year ago.

But whether the market is suffering from creeping cartelisation or entrenched overcompetition, many firms have turned to a profitable first half to the year. From April there was a notable return of companies to the international bond market as investors sought higher-yielding assets.

The asset-backed bond market has also seen something of a revival following a period when the fear of default on underlying consumer loans deterred many investors.

"Greed has finally overcome fear," commented one issuer of asset-backed securities. The equity-linked sector has been excluded from the figures above because the sector continues to be dominated by

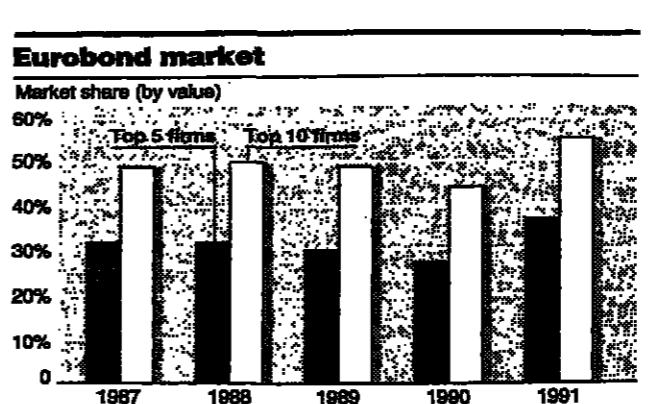
equity warrant issues by Japanese companies, lead managed by the big four Japanese securities firms – Nomura, Daiwa, Yamachii and Nikko. However, equity-linked business is booming with a torrent of new issues from Japanese issuers matched by some notable issues by European companies.

Deals such as a \$500m convertible issue by Hanson and a \$1bn warrant deal by Roche, the Swiss pharmaceuticals group, demonstrated that the international bond market could provide European borrowers with a cheap source of equity-linked finance.

In addition, new areas of straight Eurobond business have been opened up. For example, the convergence of interest rates within the European Community helped fuel demand for Eurobonds. Spanish peso, Finnish markka and Portuguese escudo bonds. In the first half of the year, the volume of lire-denominated Eurobonds rose to \$4.75bn equivalent, from \$1.5bn in the same period of 1990.

Hence there are reasonable grounds for optimism among intermediaries in the Eurobond market. The one worry is that new issue volume is highly sensitive to external shocks.

The fear is that the first half of the year could easily turn once again into famine.



Source: IFR Bondsbase

■ INTERNATIONAL EQUITY MARKETS

Worldwide search for new capital

COMPANIES worldwide have turned to the equity markets again to raise new capital as world financial markets regained some stability after the Gulf war.

There are two reasons why companies have turned to the international equity markets. First, many companies are keen to pay off short-term debt and reduce their gearing by issuing shares. Second, some

Companies embarked on a 'feeding frenzy' in the equity markets, according to one syndicate manager

companies have widened their foreign ownership by making international share offerings.

In the first half of 1991, total international equity issues amounted to \$8.75bn worldwide, of which \$4.75bn were initial public offerings (IPOs), according to figures supplied by International Financing Review (IFR). By comparison, total international equity issues amounted to \$8.5bn in the first half of 1990, of which \$4.05bn were IPOs. The level of international equity issues in early 1990 suggested renewed

INTERNATIONAL EQUITY ISSUES

	Total issues \$m	IPOs \$m
Mexico	1944.04	1907.50
Hungary	60.17	0
Indonesia	51.88	51.88
Korea	200.00	100.00
Singapore	44.68	0
Thailand	92.42	72.40
Israel	37.00	0
Canada	283.38	138.43
United States	2846.50	267.18
Denmark	225.81	0
Norway	121.48	121.48
Austria	349.04	64.58
Greece	516.07	144.86
Ireland	25.77	25.77
Netherlands	12.00	12.00
Spain	47.65	0
United Kingdom	35.55	35.55
TOTAL	8734.94	4760.22

Source: International Financing Review

confidence in the markets following the 1987 world stock market crash and the nervousness in 1988 and 1989.

However, Iraq's invasion of Kuwait in August 1990 and the recession in the Anglo-Saxon economies deterred many companies from turning to the equity markets for new capital. As a result, in the second half

Much of the activity has been in the US where international equity issues amounted to \$2.85bn in the first half of 1991, with \$2.67bn in IPOs and \$467m in secondary issues (in which shareholders sell part or all of their shareholdings to investors to widen the company's ownership).

"US companies saw a window of opportunity once the Gulf war ended for raising equity to pay off their short-term debt," says one syndicate manager. Many issues had been in the pipeline when the Middle East conflict erupted and had been "put on hold" until a suitable occasion arose. But US business from top-rated companies is starting to show signs of slowing down, according to syndicate managers, although second tier and lower quality companies are still tapping the markets.

In the first six months of 1991, international equity issues from western Europe amounted to \$2.85bn of which \$1.21bn were IPOs, as companies in the UK, Austria, Spain and France tapped the international appetite for shares. Syndicate managers report a spate of rights issues, convertibles and bonds with warrants in the first six months of 1991,

from companies such as Assurances Générales de France (AGF), Cap Gemini, Sogefi, Elf Aquitaine and France. In Spain, Banco de Santander issued convertible bonds into the international market, while in Austria OMV, the national oil company recently launched an international rights issue.

UK companies embarked on a flurry of rights issues as soon as

attention is likely to focus more on the US than on Europe in the next few months.

Meanwhile, the emerging "tiger" markets of the Far East have attracted international investors for years, in spite of the limited access foreign investors have to these markets. In the first six months of this year, there have been issues, mostly of convertible bonds, from Indonesia, South Korea, Taiwan and Thailand.

The advantage of a convertible bond is that even in markets such as Indonesia where foreigners are allowed to invest directly in the underlying equity, convertibles avoid the settlement problems sometimes encountered in emerging markets because they are cleared through the Eurobond clearing houses, Cedel and Euroclear.

Indonesian companies such as PT Astra, a diversified group which is the largest publicly-traded company in the country, and Indo cement, the cement group, have issued convertibles this year.

While South Korea recently

announced that foreigners will be allowed to invest directly in equities (which some think may reduce the attraction of issuing convertible bonds in future), the same is not true for Taiwanese companies, some of which have been active in issuing convertibles, in spite of the fact that foreign investors have no guarantee that they will be able to convert into the underlying equity at a future date.

As investors scan the horizon for new opportunities among the emerging markets, they are already starting to look more closely at south and central America, especially since Mexico has embarked upon an important privatisation programme, and it seems likely that international equity offerings from this region will increase in future.

Sara Webb

■ DERIVATIVES

Competition grows fiercer and spawns new alliances

AS derivatives have become a more common financial tool, the competition among the exchanges that trade them has grown fiercer. But the competition has also spawned a new set of co-operative alliances, especially in the US, where financial futures began.

With the greater threat of international competition in mind, the Chicago Board of Trade and the Chicago Mercantile Exchange, the world's two largest futures exchanges, have set aside much of their traditional rivalry to co-operate in several new ventures.

The most ambitions of these is Globex, the worldwide electronic after-hours trading system under development in partnership with Reuters Holdings, the UK-based information company. Globex's launch has been postponed numerous times over the past two years and it now looks as if the system is unlikely to get off the ground until 1992. When it does, however, it promises to break new ground for round-the-clock and round-the-world electronic transactions.

The Chicago exchanges have also been jointly developing a hand-held electronic trading card. After spending some \$1m together on the project, the first of three prototypes is about to start floor tests this month.

The pmo, just larger than a standard-sized Sony Walkman and called "Audit", was designed to provide crystal clear audit trials for traders.

Since last year, the two behemoths of the futures business have also begun discussing unification of their clearing houses. This is hailed by both exchanges as the most important joint move yet.

It is expected to be a big money saver for members of both exchanges and is aimed at maintaining Chicago as the world centre of futures trading.

Mr William O'Connor, chairman of the CBOT, said in a recent speech that the International Clearing House in London posed a clear challenge for leadership in international

derivatives trading and that Chicago must fight to keep its place in the sun.

He also warned that the Securities and Exchange Commission will undertake a study of clearing issues that is likely to mandate common clearing and in a way that is unlikely to favour the futures markets. He would like to beat the government to the punch.

He also pointed out that clearing was a key advantage in the futures industry's competition with off-exchange derivatives. He insisted that unified clearing in Chicago would sharpen the competitive edge markets hold over off-exchange trading.

The two exchanges have also embarked together on a series

of foreign efforts, including joint agreements of co-operation with the fledgling exchanges of Budapest and Moscow. They have teamed up to market their products and Globex in Tokyo, Hong Kong and Taiwan. And they are expected to consolidate their offices in London and Tokyo, allowing the savings to be used to open offices in the continent and in Hong Kong.

However, this has not meant that the two exchanges have ceased to compete for business in their contracts. For example, they both introduced Japanese stock index products last year, the CME's Nikkei future and the CBOT's Topix future. Only the Nikkei futures succeeded. More recently, the CBOT has launched interest rate swap futures, which will potentially compete with the CME's Eurodollar contract.

Co-operation among New

York's five futures exchanges has proceeded less smoothly, but at the end of April they approved a joint move to a new trading facility in 1994 and are now in talks on possible unification of clearing and other preparatory issues.

US options exchanges, regulated separately from futures markets and thus maintain discrete entities, are also engaged in developing a worldwide electronic trading system for options.

The Chicago Board Options Exchange, the American Stock Options Exchange of Amsterdam to trade, pending SEC approval, options and warrants on the Eurotop 100 index.

Amex is also in discussions with the Frankfurt Stock Exchange for trading the DAX index, though regulatory issues must be ironed out.

European futures and options markets, which unlike the US can be under one roof, are at an earlier stage of development with greater head-to-head competition on contracts.

The Marché à Termes International de France (Matif), for example, recently announced its intentions to launch a futures contract in September on Italian government bonds just two weeks before the start of trading of a very similar contract by the London International Financial Futures Exchange (Liffe).

The Deutsche Terminbörse, Germany's electronic futures and options market began in January 1990, is also wrestling with Liffe to bring home from London more of the trading in the German government bond.

Liffe's current dominant position could be strengthened with its pending merger, five later this year, with the London Options and Futures Exchange.

At the European taste for derivatives, trading will settle in the exchange or exchange where liquidity is deepest, barring regulatory or other barriers to normal market tendencies. The economic unification of Europe is also likely to add a vigorous push to European regional co-operation.

But the advent of worldwide electronic trading, if through Globex and the Amex-CBOE systems, could mean that derivatives volume is still concentrated in the US.

Barbara Durr



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INTERNATIONAL CAPITAL MARKETS 4

■ SECURITISATION

Surge of activity yet to materialise

EUROPEAN securitisation is a market much tipped for growth, but the surge of activity predicted by proponents of the market for several years has yet to materialise.

In the US, there are trillions of dollars of mortgage-backed and asset-backed bonds, but Europe's largest market is the £10bn market in sterling mortgage-backed securities.

Economic pressures are forcing European companies, especially financial institutions, to focus on balance sheet structure.

Securitisation allows the removal of assets from an issuer's balance sheet, as assets are repackaged and sold to investors in the form of bonds.

The need to meet new capital requirements is forcing

Economic pressures are forcing European companies to focus on balance sheet structure

banks in particular to look closely at securitisation. Increasing competition in the financial services area is also obliging firms to focus on key businesses, and when necessary to sell off assets in other areas.

But economic forces are not yet proving sufficiently strong to overcome the reluctance of many potential issuers to undertake securitisation.

And in several countries where banks are poorly capitalised, there is not yet an adequate legal structure for securitisation. This is true of both Spain and Italy where there is strong interest in securitisation.

In Japan, where a weak stock market has devalued the capital held by many financial institutions, the Ministry of Finance is widely expected to liberalise the financial markets in order to pave the way for securitisation.

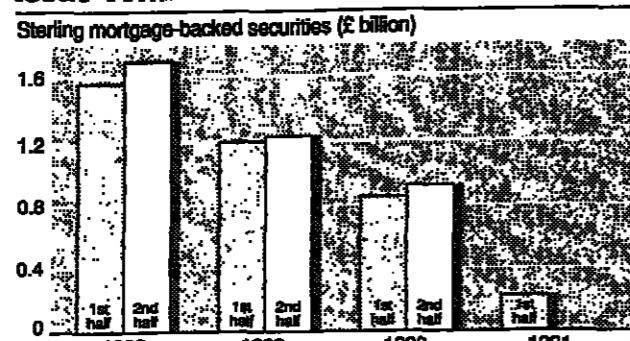
In France, where a "securitisation" law was passed in 1989 to provide a legal framework for securitisation, fewer than 20 deals have been launched. So far, most bond issues have been backed by loans, and placed with domestic institutions.

It is generally agreed that the structure of the law has allowed some less-than-genuine securitisation (for example, bonds backed by a single loan) and restricted an important sector of the market, the credit card receivables market.

The French Treasury is close to deciding how to reduce constraints on securitisation in France.

French bankers have been lobbying for the removal of the two-year minimum maturity to allow securitisation of credit card receivables, believed to be crucial to the market's growth. Substitution of assets is likely to be allowed.

Securitisation is unlikely to take off in Germany where

Issue volume

Source: Euromoney

bonds are well capitalised and can access fresh capital rapidly. But the first German deal appeared last year, a DM200m private placement backed by consumer loans originated by KKR Bank, a Citibank subsidiary.

The deal was approved by the Bundesbank, but securitisation remains a politically sensitive issue in Germany and public offerings of such debt are not likely to be permitted.

Smaller European markets such as Belgium and Ireland are in the process of passing legislation to facilitate securitisation. In Belgium, securitisation of loans is expected to be possible before the end of the year.

The Swedish mortgage market is particularly suited to securitisation because mortgages are of short duration and

Economic recession caused the rate of mortgage defaults to rise substantially, unsettling investors

cannot be prepaid. The first Swedish mortgage-backed deal – and the first in Europe outside the UK – was launched by a subsidiary of Skandinaviska Enskilda Banken, the Swedish bank, at the end of last year.

Meanwhile, the promising UK mortgage-backed market has survived a difficult period.

Economic recession caused the rate of mortgage defaults to rise substantially, unsettling investors and causing margins on mortgage-backed securities to widen substantially at the end of last year.

The final blow came in January when the Bank of England said that UK banks would probably have to set aside more capital against holdings of mortgage-backed securities.

Under European Community legislation, the securities would have to carry a 100 per cent risk weighting under capital adequacy guidelines from January 1993, rather than a 50 per cent weighting – effectively doubling the amount of capital that banks are required to hold from that date.

However, some investors decided that the market offered good value at these wider margins and started buying again, and the market has since recovered substantially.

Tracy Corrigan

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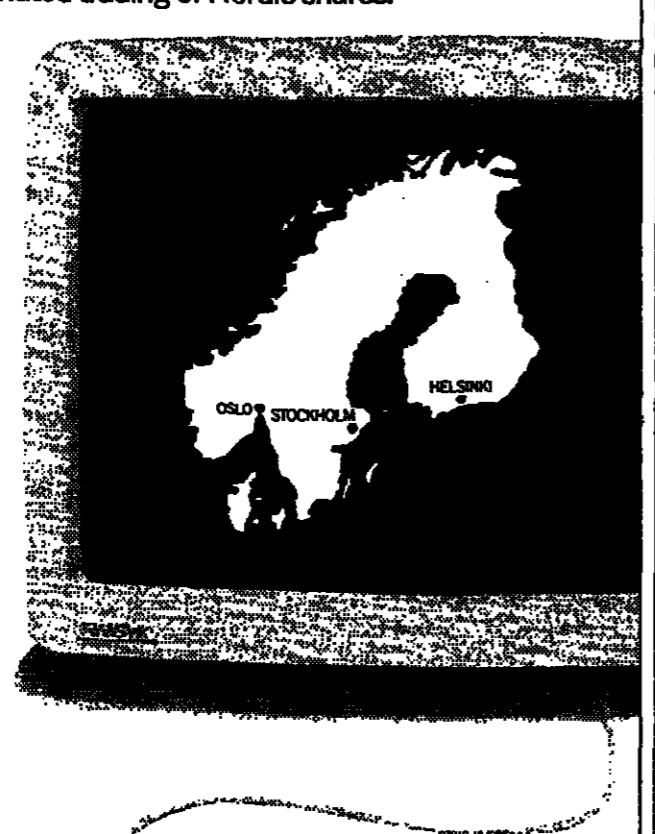
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Attractive profit margins continue

THE recent £150m loss sustained by Allied-Lyons through its ill-conceived use of derivative products in the foreign exchange market may have deterred some companies from investigating the benefits of such instruments.

The Hammertsmith and Fulham swaps case, which could leave banks out of pocket to the tune £500m, may have encouraged banks to be more selective about their counterparties.

But the derivatives business is booming, and banks are competing fiercely for business in a market which still offers attractive profit margins.

The internationalisation of business during the past 10 years has increased the exposure of large companies to the vagaries of financial markets.

Currency exposure is no longer a concern only for exporters and importers. Most large UK companies, for example, now have some operations abroad, and the translation of foreign earnings back into sterling has become a crucial concern.

Foreign exchange exposure is no longer accepted as a valid excuse for losses or declining profits.

Consequently, many corporate treasurers have become sophisticated users of derivative products in order to offset currency and interest rate risk. Competition among banks for a share of this lucrative market has fuelled innovation and reduced costs.

Derivative products allow companies to fix costs and income flows in advance, which is particularly valuable when recession is biting into margins.

"Once we've set a budget for the year, we like to take as much of the currency risk out as possible," explained Mr Keith Hamill, director of financial control at Guinness in a recent interview.

The UK brewer estimates that it will have foreign currency exposure of about £700m this year. "Our policy is

not to speculate. We use hedging to create predictable cashflows and profits," he added.

There are several markets for hedging foreign currency exposure: the forward market, where companies buy or sell currencies for future settlement and the options market, where the holder can buy or sell a currency at a set rate. Unlike futures contracts, options give the purchaser the right, rather than the obligation to buy or sell. This means that a treasurer can use an option as insurance against adverse changes, but leave it to expire if such protection proves unnecessary.

The technology surrounding straight-forward currency options has become widely understood, and such options are now considered to be "commodity" products, for which high premiums can no longer be charged.

But new, sophisticated products designed to suit the individual requirements of a company's circumstances are becoming more widely used.

Derivative products allow companies to set an upper and lower limit on an exchange rate. The advantage is that it allows a company, which thinks a currency is set to rise but requires some downside protection, to keep some of the benefit if the currency does improve (unlike an ordinary forward contract). At the same time, banks do not charge an upfront premium (as they do for options).

A "participating forward" combines features of forward contracts and options, but there is no upfront premium. There is a set floor, as for an option, but there is also some participation in any gains – perhaps 50 per cent of the benefit is received by the company while the other 50 per cent is surrendered to the bank.

futures exchanges.

It allows them to borrow funds in one

market and then swap the proceeds into another currency, or from fixed-rate to floating-rate (or vice versa) interest obligations, by exchanging flows with a counterparty. This allows companies to take advantage of opportunities in foreign currency markets where attractive swap rates may allow them to achieve funding at substantially cheaper levels than in their domestic market.

There may be two legs to a swap – a currency and an interest rate leg – but the final cost of funds is often compared with the company's target, usually expressed as a margin below (or above) the dollar London interbank offered rates. Targets have been lowered as swap opportunities in many markets have been arbitraged away.

Companies are not only active in the swaps market when they raise funds in

the public markets, but also use the market for general debt management.

Swaps allow companies to take advantage of rising and falling interest rates to trends to fix interest payments, for example. However, there has to be a counterparty who wants to make the opposite movement. And increasing concern about the credit quality of counterparties is somewhat hampering the access of certain companies.

Swap rates – the rates at which institutions will pay or receive as a counterparty in a swap agreement – and US Treasury yields tend to move in opposite directions. But at the moment swap yields are at historically low levels, at the same time as US Treasury yields have hit a four-year low.

NatWest Treasury is consequently advising its clients to take this opportunity to lock in fixed-rate funding at historically low levels. However, many companies are reluctant to do this because short-term rates for commercial paper are lower.

An increasingly common device is the deferred rate settlement which involves locking in a new issue's yield spread over the US Treasury market for a period. Thus if interest rates decline, the borrower can lock in a lower absolute rate of fixed interest costs.

From the banks' point of view – and new participants are still entering the market – there is still growth potential in corporate treasury business. When that runs out, they will not despair. They are already targeting European fund managers, who have been generally more conservative than their counterparts in corporate treasury. Bankers believe that their conversion is at hand.

■ SYNDICATED LOANS

Sluggish volume of business

THE new capital adequacy requirements and a recession in the Anglo-Saxon economies have taken their toll on the syndicated loans market in recent months.

The volume of business has been very sluggish and few bankers expect it to pick up quickly. However, many hope that top-quality corporate borrowers will return to the loans market as growth in the western economies improves. In the longer term, the reconstruction of those countries in the Middle East affected by the Gulf War is expected to lead to heavy borrowing, possibly in the syndicated loans market.

Already Saudi Arabia has negotiated a \$4.5bn syndicated loan for general purposes (although the money may go towards paying for the allies' war effort) and Kuwait is thought likely to use the syndicated loans market to help for rebuilding the economy. Under Saudi Arabia has negotiated a \$4.5bn syndicated loan for general purposes (although the money may go towards paying for the allies' war effort) and Kuwait is thought likely to use the syndicated loans market to help for rebuilding the economy.

As a result of the international capital adequacy requirements agreed by the Basle Committee, many banks – particularly the Japanese banks – are looking more cautiously at their lending. In the late 1980s, Japanese banks were responsible for 40-50 per cent of new lending, but because of concerns about capital adequacy requirements they may only account for 20-25 per cent of new lending for the rest of 1991, according to one Japanese banker.

As banks claim to have become more selective in their lending, the pricing on the loans has increased markedly. Pricing – including the margin over the

London interbank offered rate and various fees – is now double, or even three times higher than it was two years ago.

With the recession in the UK and US, banks have become more worried about the creditworthiness of borrowers. Many banks are now concentrating on refinancings for top-quality borrowers. A recent OECD report, Financial Market Trends, concludes that "the future pace of overall growth in the international markets will crucially depend upon the volume of demand by borrowers with high credit standing".

Worries about the impact of the recession on corporate borrowers has meant that many bankers are demanding much tighter financial ratios and more detailed covenants.

For example, the interest cover (profit divided by total interest charged) that banks are now requesting is more likely to be in the range 2.5 times, rather than 1.5-1.75 times as it was a year or so ago. Gearing (the debt-to-equity ratio) has also come under scrutiny; bankers say they feel more comfortable with gearing of 100-125 per cent now rather than the level of 150 per cent which was common a year ago.

Furthermore, the bankers are likely to demand quarterly or half-yearly management accounts to keep a close eye on company profitability.

As banks appear to be showing more caution over their lending activities, demand from companies in the Anglo-Saxon economies for syndicated loans has tailed off for a variety of

reasons. The high pricing on loans has deterred some, who feel they can borrow more cheaply in the international bond and commercial paper markets.

Second, much of the syndicated loans activity in the late 1980s – particularly in the US market – was related to mergers and acquisitions: as M&A activity has fallen, so demand for related financing dwindled in 1990-1991.

Some companies which borrowed heavily to finance their growth now feel uncomfortable with their gearing; in many cases, they have taken advantage

Many bankers are demanding much tighter financial ratios

of the rise in the stock markets and increased investor appetite since the end of the Gulf War to raise equity and therefore reduce their gearing ratios.

While the statistics for syndicated lending make depressing reading for bankers, most point out that the market has gone through bad patches before. According to figures compiled by International Financing Review (IFR), there were 431 syndicated loans and note issuance facilities (NIFs) worldwide in the first six months of 1991 worth \$9.74bn. In the second half of 1990 there were 558 loans and NIFs, worth \$16.55bn, while in the first half of 1990 there were 761 loans worth \$18.4bn.

Citicorp ranked first in the league

table of lead managers and arrangers, with \$21.45bn of the syndicated loans and NIFs and 30 issues in the first half of 1991. Citicorp also came top in the first half of 1990 with 70 issues worth \$52m, but in the second half, it slipped to fourth. National Westminster was top with 66 issues worth \$32.26m.

The OECD report – Financial Market Trends – says that US companies are still borrowing in the syndicated loan market at about the same level as in 1990, but says borrowing requirements are at nowhere near the level seen in 1988-89, largely because of the decline in merger and acquisition financing.

Some banks are wondering whether British companies will return to the loans market in the next year or so as their multiple option facilities (MoFs) come up for renewal. Companies set up MoFs in the late 1980s to obtain very competitive standby funding options.

As the banks were very keen to arrange these, the pricing was very aggressive, with companies paying a fee to be able to draw on the facility at a slim margin over Libor. Because the pricing was so cheap, many companies took out MoFs as a form of "insurance" on which they could fall back. However, in some cases, companies found that when they did need the funds, they were unable to fall back on these facilities as the banks used technical breaches of loan covenants as an excuse to avoid meeting their obligations.

Sara Webb

■ REGULATION

Elusive international solution

THERE is one thing on which everyone connected with regulating securities markets and securities market intermediaries agrees: the need for greater international co-operation to guard against a systemic collapse in securities markets. The trouble is, finding an international framework seems almost as far away as ever.

Several wide-ranging, multi-lateral attempts to stem risk in securities markets are being developed.

Not all have to do with regulation, but all are directed at reducing the dangers of financial stress in one market spreading to others.

The two most important initiatives are those aimed at agreeing a common standard of capital adequacy for securities firms, and at upgrading settlement systems around the world. Both are long and arduous processes, and each seems a long way from completion.

When reviewing the scope for structural improvements in securities markets, the Organisation for Economic Co-operation and Development (OECD) recently singled out these two areas as those with "the greatest scope for progress".

By contrast, it cast doubt on much of the effort put into guarding markets from stresses caused by a repeat of the 1987 stock market crash. Neither the use of "circuit breakers" to close markets at times of high volatility, nor limitations on programme trading, offered guarantees against contagion spreading in the world's securities markets.

The attempt to devise a common standard for the minimum capital of securities firms, parallel to the capital adequacy requirements for

banks developed by the Basle committee of central bankers, is being taken forward on a number of fronts.

INTERNATIONAL CAPITAL MARKETS 5

Simon London examines innovation in financial engineering

Structures under stress

REGULATION spurs innovation; nowhere is this more true than in the world of financial engineering. While the wildest designs of the financial engineers have faded with the boom years of the 1980s, there are still plenty of buyers for tailored financial instruments.

Tax and accounting anomalies, particularly in the distinction between debt and equity, remain a rich source of material. Regulation of the banking system, with the imposition of strict capital ratios which international banks must adhere to, has also created an industry designing new capital structures.

Elsewhere, the technology of derivative financial instruments is being applied to small, private deals which offer investors protection against anything from volatility on the currency markets to the price of pot-holes.

However, the most widely applied structures are instruments which share some of the features of debt and some of the features of equity. They are instruments which cut balance sheet gearing but cost the issuer far less than common stock. The challenge is to design an instrument which looks like equity and is for the purposes of accounting, but qualifies as debt for the purposes of tax.

Perhaps the simplest debt/equity hybrids are convertible bonds, such as the convertible

capital bonds issued by UK companies including Sainsbury, British Airways and Tesco.

The bonds give investors the right to convert into ordinary shares at a low premium to the current market price, making conversion highly likely.

The bonds are highly subordinated, giving the holders something akin to equity risk.

This combination of factors has convinced accountants that the bonds can be accounted for as equity from the date of issue. Looked at from an economic perspective, rather than the legal perspective favoured by the tax authorities, the bondholders rank behind other creditors in the event of default. Yet if the issuer remains a going concern, the likelihood is the bonds will be converted into equity.

However, in other jurisdictions, debt/equity hybrids are more complex.

The main US instruments are auction market preferred shares (AMPS). The interest rate on AMPS is set through a regular remarketing or "auction" process. At each auction, investors have the right either to sell the bonds back to the intermediary which issued the notes (the remarketing agent) or demand a higher rate of interest.

From a tax perspective they are not true hybrids, since interest payments are not tax-deductible for the issuer. But

they are true hybrids when looked at from the economic perspective. Because of the remarketing process, the cost of capital rises when the issuer is in trouble - just like debt.

One issue to face the reality of this situation was Rank Organisation, which opted to repay its \$200m AMPS from straight borrowings when a reduced credit rating made the instruments too expensive to maintain.

However, the search for tax-efficient capital has been most urgent among the world's largest companies, where they struggle to meet the Basle guidelines on capital adequacy.

The Basle Committee guidelines set down capital adequacy standards, specifying a minimum ratio of capital to assets, which are being phased in by 1993. Total capital must reach 8 per cent of assets.

Of the 8 per cent, half must be Tier One or "core" capital, comprising equity and non-cumulative perpetual preference shares.

The remainder must be a mix of Upper and Lower Tier Two capital, comprising subordinated debt instruments, provisions and valuation reserves.

The episode, like the problem in the AMPS, serves to illustrate that engineered financial structures can be fragile. Little wonder that regulators such as the Basle Committee and the UK Accounting Standards Board are concerned that regulation should not lead to proliferation.

In the past two years, many banks have turned to the issue of another complex auction-based structure - variable rate notes - to fulfil Tier Two requirements. The structure is similar to AMPS in the US. The difference is that at each stage the VRN investor has the option to reject the new coupon and put (or sell) the bonds back to the remarketing agent, a feature which provides synthetic liquidity.

While the stock markets of the developed world have stagnated, many emerging markets are forging ahead. So far this year the Mexican stock market has risen 55.8 per cent, the Malaysian stock market 20 per cent and the Brazilian stock market a staggering 138 per cent.

THE recession in many of the developed economies over the past year has made portfolio expansion to the fast-growing economies of Asia and Latin America desirable for many international investors.

While the stock markets of the developed world have stagnated, many emerging markets are forging ahead. So far this year the Mexican stock market has risen 55.8 per cent, the Malaysian stock market 20 per cent and the Brazilian stock market a staggering 138 per cent.

Historically, the Asian markets have attracted most interest because of the prodigious rate of economic growth which has been sustained by the economies. In 1981, the Asian stock markets only accounted for 43 per cent of the total market capitalisation of all emerging markets according to the International Finance Corporation, the private sector financing arm of the World Bank. By last year this had risen to 72 per cent.

As a result, there has been a steady flow of companies from the region offering equity-linked debt, in the form of either warrant bonds or convertible bonds, to international investors.

The most active have been Korean companies, not least because the Korean stock market is still closed to foreign investors. But others to have issued equity-linked international debt securities include Taiwanese, Indonesian and Thai companies.

Not all of the deals have been a sparkling success. In particular, the four Indonesian equity-linked debt offerings launched in April seemed to dominate the market. For example, PT Indorayon's \$60m convertible offering was launched at par in April but was trading at a price of 85 bid by June. A combination of too much new paper and a poor performance by the Indonesian stock market were blamed. Indonesian share prices have fallen by nearly 20 per cent this year.

This underscores the appetite for emerging market exposure is still something of a niche business in the context of international securities trading as a whole. It is also a reminder that many emerging stock markets are highly volatile. But in many markets outside regulation prevents direct investment by overseas investors in equity markets, so international equity-linked bonds provide the only route of access. This is slowly changing. From January 1 next year, foreigners will be able to buy up to 10 per cent of a Korean company. The Taiwanese authorities are also slowly liberalising their stock market.

So far, the securities companies have grudgingly agreed to banks' subsidiaries engaging in certain primary securities activities from 1993 - lead managing, publicly-placed bonds and equity-linked instruments, and issuing privately-placed bonds.

The banks reply that underwriting without broking is meaningless. Mr Kurosawa said that with no secondary business there could be no primary business. "You cannot issue bonds to clients but then not be able to buy them back if they want to sell," he said.

Edward Bell

■ JAPAN

Tentative recovery stalls

ALL is not well in Japan's financial markets. A tentative recovery in confidence this year, following last year's bruising stock market collapse, has been punctured in recent weeks as a spate of financial scandals have sent share prices falling again.

High interest rates, introduced in response to asset price inflation, triggered a collapse in the Tokyo stock market last year. This brought an abrupt end to five years of rapid international expansion by Japanese financial institutions.

This rise in short-term interest rates in Japan, and falling interest rates in the US, have reduced the outflow of Japanese portfolio savings. Japanese portfolio outflows fell by \$73bn in 1990, compared to 1989, to just \$27bn. Japanese investors were net sellers of US securities.

Mr Shiguro Ogata, former deputy governor of the Japan Development Bank and now a director of Barclays Bank, does not expect a recovery in the activity of Japan's financial institutions this year. "It looks try to raise new capital the

total securities portfolio at the end of 1990, down from almost 34 per cent at the end of 1989.

Meanwhile the stock market collapse has caused serious problems for banks in meeting the minimum capital adequacy ratios set in 1988 by the Basle committee on banking supervision of the BIS.

The BIS standards required a minimum capital-asset ratio of 7.25 per cent at the end of 1990, rising to 8 per cent by 1992.

Last year's crash knocked more than 50 per cent off Japanese banks' unrealised gains on their equity holdings, 45 per cent of which they are allowed to count as official capital.

Almost all Japan's leading banks had reached the required BIS standard in March 1991 by issuing subordinated debt and retaking back their asset growth. But recent falls in the Tokyo stock market, in the face of a series of illegal practices, "Our neighbours' misfortune is our own misfortune," he said.

Mr Kurosawa said that as a result of the stock market's continued weakness the Industrial Bank of Japan would not be able to have a right issue this year. He does expect asset growth in 1991 to top 2 per cent.

"If the stock market recovers and we can do a right issue then we may take a bit more of an aggressive position than we are doing," he said. Even then the BIS rules will continue to constrain the banks' international lending. "We could not be aggressive like in 1985 - that was too much."

As a result, the Japanese banks have become more profit-conscious and are stressing the quality, rather than growth, of their asset portfolios. They are also raising their profile securities activities overseas, such as Eurobond underwriting and selling and futures trading, to gain expertise.

stock market will not bear it," he said.

Mr Yoh Kurosawa, president of the Industrial Bank of Japan, confirms that the latest scandals have damaged the prospects for Japan's banks, as well as the securities companies directly involved in the illegal practices. "Our neighbours' misfortune is our own misfortune," he said.

Mr Kurosawa said that as a result of the stock market's continued weakness the Industrial Bank of Japan would not be able to have a right issue this year. He does expect asset growth in 1991 to top 2 per cent.

"If the stock market recovers and we can do a right issue then we may take a bit more of an aggressive position than we are doing," he said. Even then the BIS rules will continue to constrain the banks' international lending. "We could not be aggressive like in 1985 - that was too much."

As a result, the Japanese banks have become more profit-conscious and are stressing the quality, rather than growth, of their asset portfolios. They are also raising their profile securities activities overseas, such as Eurobond underwriting and selling and futures trading, to gain expertise.

Edward Bell

■ WALL STREET

A welcome tonic

In spite of the weakness in the stock market in the second quarter, analysts expect another set of impressive figures from Merrill Lynch for the April-June period, primarily because of the big increase in domestic bond and equity underwritings. Between January and the end of June, US companies raised a record \$261.5bn in new capital, a 53 per cent increase on the first half of 1990. The bulk of the new issues were launched in the second quarter. Merrill Lynch earned a large chunk of that business, acting as lead underwriter for \$85.5bn in new issues, making it by far the biggest deal handler on Wall Street.

All the big brokers have benefited from the explosion in new issues, with Goldman Sachs, Salomon Brothers, Shearson Lehman, First Boston, and Kidder Peabody each underwriting issues worth more than \$20bn in the first half of 1991. The finance offices of corporate America have rushed to the market to raise cash because of the strength of bond and equity prices, which has enabled issuers to get more for their new securities - and the belief that interest rates have reached a floor.

Wall Street, however, cannot count on the number of new issues keeping pace in the second half of the year. The appetite of institutions for new paper is dwindling as cash reserves diminish, and by late June there were signs that brokers were having trouble placing new stock and bonds.

In contrast, the Standard & Poor's 500 index, the best indicator of wider market performance, rose by 12.4 per cent. The gains in broking houses stocks have been a direct result of the strength of the overall market and the increase in trading volume, which has generated greater income for Wall Street houses.

One of the best performers has been Merrill Lynch, the biggest US securities house and a traditional bellwether for the industry. Early this year, Merrill's stock was at a low of just over \$18 amid fears of a prolonged bear market and rising costs. Yet by mid-year the price had more than doubled to just under \$40. Merrill's profits in the first quarter rocketed 33 per cent to \$181m.

money with brokers has paid off. Fee-based income, previously neglected by many broking houses, has become a vital contributor to balance sheets.

Other areas of success include asset and mortgage-backed securitisation, and debt financing. The success of Merrill Lynch in the latter has persuaded the likes of Salomon Brothers, Goldman Sachs and Bear Stearns to expand their debt transactions operations. Even the much-maligned junk bond market has experienced something of a revival, though the even more maligned real

cations yet that domestic M&A business will pick up soon, especially as the debt burden on corporate America shows no sign of easing.

While Merrill Lynch has prospered in the past year, two other big names have only just begun to recover from the disasters of the late 1980s.

Shearson Lehman and Prudential-Bache are both owned by non-broking parents - Shearson (now renamed Lehman Brothers) by American Express, and Prudential-Bache (now renamed Prudential Securities) by the giant insurance company, Prudential. Both firms have proved a drain on resources for their parents.

Prudential-Bache's attempt to transform itself into a leading investment bank was a failure. Prudential's estimated \$1bn investment in its securities subsidiary led to losses of \$15m in 1989 and \$25m in 1990. The losses stemmed from ill-advised expansion in four key areas: investment banking, limited partnerships, risk arbitrage and Canadian finance.

Since those losses, Prudential has installed its own head as head of its securities unit, a flexing of parental muscles echoed by Shearson, where American Express has begun to exercise greater control over the country's second-largest brokerage firm. The \$915m loss in the first quarter of 1990 forced American Express to drop its plan to give Shearson more freedom and buy the broker outright, in the process investing some \$1.35bn.

The loss of independence at Prudential-Bache and Shearson was a big blow to Wall Street's morale and although both firms have been helped back to mergers and takeovers to a minimum. There are few indications of it related to previous acquisitions), a shortage of credit, poor economic trading conditions and an uncertain economic outlook kept mergers and takeovers to a minimum. There are few indications of it related to previous acquisitions), a shortage of credit, poor economic trading conditions and an uncertain economic outlook.

market conditions, it will be some time before the two firms regain their lost confidence.

While revenues are up on

Wall Street, on the cost side

the restructuring programmes

forced upon the industry in the past few years have begun to bear fruit. More than 70,000 jobs have been shed within the industry since 1987, helping firms lose much of the excess fat put on during the 1980s boom years.

Yet there is still overcapacity in some areas, most notably in back office clearing and settlement operations. The big houses have been restructuring the back office in an attempt to bring costs down and improve efficiency. Some, such as Salomon and Paine Webber, have moved their operations out of expensive Manhattan, while others have talked of back office mergers with their competitors.

There is also overcapacity at a market level, particularly in the government bond markets where 40 securities houses enjoy the status of "primary dealer", those who trade directly with the Federal Reserve. The intense competition among primary dealers has squeezed margins and cut earnings. Although six firms have reorganized their dealership privileges in the past 18 months, analysts believe there is room for at least another half-dozen withdrawals.

Overall, 1991 has been good to Wall Street. But few securities firms are counting their chickens. Part of the improvement has stemmed from strong market conditions and profit from structural changes within the industry. While the benefits of the latter should prove long-lasting, securities firms cannot rely on market conditions remaining favourable, especially when the economy is still struggling to pull out of a recession that has been deeper and longer than anyone expected.

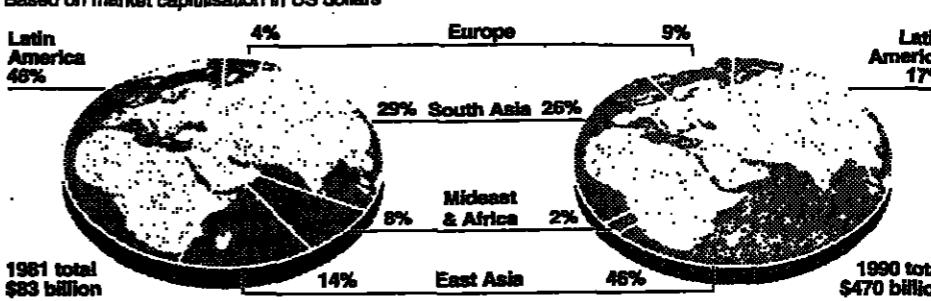
Patrick Harverson

■ EMERGING MARKETS

Forging ahead in difficult times

Regional weights of emerging markets

Based on market capitalisation in US dollars



year. According to research by Salomon Brothers, capital flows into Latin America have grown from \$5bn in 1989 to over \$12bn in early 1990.

Mexico has been at the forefront of the resurgence. The Mexican economy was the largest recipient of new capital in 1990, with a total of \$3.4bn invested, enough to cover the nation's projected

per cent. Top-rated corporations from Europe and the US pay substantially less. For example, a three-year issue launched by Acer Brown Brothers, the Swedish-Swiss engineering group, at about the same time carried a coupon of just 3% per cent.

But the range of available instruments and the range of investors willing to back Mexican companies is broadening all the time.

The position of Mexican companies was aided by Telmex, the formerly state-owned telecommunications company, which raised \$20m from international investors in one of the largest ever international offerings of equity.

The transaction was rated a success by most observers. In particular, 900m shares were sold into the normally risk-averse US market. This transaction and the planned free-trade agreement with the US and Canada will do much to bring Mexico back into the mainstream of international finance.

Outside Mexico, large borrowings have been few, although the volume of small private placements has risen

current account deficit twice over, say Salomon Brothers.

However, to have access to the international capital markets, Latin American issuers are generally less well known internationally, and the economic fundamentals are less favourably perceived.

In other countries such as Brazil, Argentina and Colombia, still facing economic problems, there have been mainly small privately-placed deals, usually for less than \$25m.

However, Petróbras, the Brazilian state-owned oil company, recently broke this pattern with a \$300m international bond issue managed by Chase Manhattan. The success of the deal underlines the extent to which Latin America is stimulating interest among international investors.

Simon London

Despite this track record, Pemex still has to pay a premium for international funds. The company's Ecu75m three-year issue, launched in early July, carried a coupon of 11%

market conditions, it will be some time before the two firms regain their lost confidence.

While revenues are up on Wall Street, on the cost side the restructuring programmes forced upon the industry in the past few years have begun to bear fruit. More than 70,000 jobs have been shed within the industry since 1987, helping firms lose much of the excess fat put on during the 1980s boom years.

Yet there is still overcapacity in some areas, most notably in back office clearing and settlement operations. The big houses have been restructuring the back office in an attempt to bring costs down and improve efficiency. Some, such as Salomon and Paine Webber, have moved



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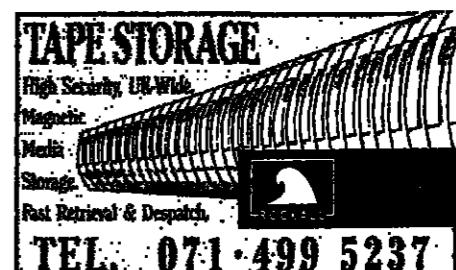
NatWest
Corporate
Finance



FINANCIAL TIMES COMPANIES & MARKETS

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Monday July 22 1991

**INSIDE****Stocklake goes into voluntary liquidation**

In an effort to return excess cash to shareholders in a tax-efficient manner, Stocklake Holdings, the overseas trading group, is going into voluntary liquidation. Investors will also receive shares in Adam & Harvey, which owns the trading activities of Stocklake and which will seek a Stock Exchange listing, and in Pea Brothers Group, the listed merchant bank. Maggie Urry examines the structure of the deal. Page 16

Upside of a down

A 16 per cent decline in first-half profits is not usually a cause for celebration in most companies; but at Banco Espanol de Credito (Banesto), one of Spain's largest commercial banks, the fall will be viewed as a healthy development. Last year, Banesto boosted profits from the sale of part of its large cement holdings. Banesto said its fee income in the first half of 1991 had actually increased 45 per cent. Peter Bruce reports. Page 17

Falls of the unexpected

Gilt prices took a tumble last week following the unexpected announcement of a £1bn (\$1.6bn) tranche of UK government bonds in far from popular maturity range. The announcement, although part of an already-revealed plan to fund the government's deteriorating public sector account, served up a reminder of the susceptibility of the market to new funding issues. Peter Marsh reports. Page 18

Euromarkets put on brave face
The news that the British Office of Fair Trading is making what it terms a "polite inquiry" into new issue practice in the Eurobond market has come at a highly sensitive time for the industry. Having flourished as an offshore arena, the market is trying to define and defend its position under a new European Community regulatory regime. Simon London reports. Page 19

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Economic Notebook**Dutch welfare disables the economy**

"THE NETHERLANDS is sick," Mr Ruud Lubbers, the country's prime minister, said last year in a famous lament about the health of the Dutch welfare state. However, a more accurate description of the Dutch predicament would be: "The Netherlands is disabled."

The country faces a disability problem of unprecedented proportions. For every six people of working age, there is one who has officially been declared disabled or, according to the literal translation from Dutch, "unfit to work".

No country in the world has such a large proportion of its potential workforce drawing state benefits. Yet the Netherlands has a welfare state whose generosity is rivalled only by that of Scandinavia. The Dutch possess an enviable healthcare system and excellent health care.

So what accounts for the Dutch disability? The answer is widespread abuse of the system, not by individuals failing to exist, but by the country at large. The disability scheme - known by its initials, WAO - has become an expensive, but convenient, dumping ground for surplus workers. As such, it is a huge, hidden form of unemployment.

The Dutch disability problem is difficult to quantify. Abroad, the word "disabled" conjured up images of physical handicaps and wheelchairs. In the Netherlands, the incapacitated also include people who are embroiled in conflicts with their employers but who cannot be fired because of strict Dutch labour laws.

The disabled are often people who suffer from stress caused by either personal or professional problems or both. As many as one-third of all disability payments are due to psychological rather than physical problems. For almost 25 years, the generous disability



Prime Minister Ruud Lubbers: "The Netherlands is sick" is also served, in part, as an escape route for employers who want to rid themselves of troublesome workers.

Financially, the system is deemed to be untenable. Already, 900,000 people draw WAO benefits and the number is forecast to pass the 1m mark by 1993. This has prompted Mr Lubbers' centre-left government to propose an uncharacteristically radical overhaul of the system.

In 1990 alone, the state paid out Fl 424m (£12bn) in disability benefits, the single biggest item of social security spending after old-age pensions. This sum, vast for a country of less than 15m people, is roughly equivalent to the government's annual budget deficit.

Recipients of disability benefit are paid up to 70 per cent of their former salary until they reach the retirement age of 65.

the proposed changes to the system could bring savings of Fl 4.4bn in 1994. Another goal, however, is to create incentives for people to go back to work, presumably in a different job, if their disabilities allow.

Unlike the Swedish system, the Dutch have only a few sanctions designed to get people off social welfare rolls. The Organisation for Economic Co-operation and Development recently cited the generosity of the Dutch social welfare payments and noted that "incentives to work are low".

For this reason, the government's attempts to build "disincentives" into the WAO disability scheme are unusual and thoroughly "un-Dutch" - accounting for the storm of criticism over the proposals.

Significantly, the proposed reforms are not based on any ideological reassessment of the limits of the welfare state, but on pure financial need. If the Dutch could afford it, the WAO system would probably never be revised. But the country has little choice if it wants to preserve the welfare state.

To do so, the Netherlands must increase the number of people holding jobs and, more importantly, who contribute to financing the welfare system.

In 1963, when the welfare state was in its infancy, there were three people in jobs for every recipient of social welfare or old-age pensions. By the late 1980s, the ratio had narrowed dangerously to just slightly more than 1:1.

These figures help account for the country's big budget deficits and its high taxes and social security premiums.

Seen through the eyes of the economist, these are the most important weak spots in the Netherlands' economic system, a government report concluded last year.

Ronald van de Krol

CONCERN over the health of the US life insurance industry seem likely to be fuelled by the decision of Moody's, one of the large Wall Street rating agencies, to downgrade six big insurance companies.

The downgrades cover John Hancock Mutual Life Insurance, the 10th-largest life company in the US; Massachusetts Mutual, ranking 15th; Principal Mutual, a leading player in the pension and group health sectors; Mutual Life Insurance Company of New York; New England Mutual Life Insur-

ance, with assets of some \$17bn; and Travelers' Insurance, part of the big Travelers composite insurance group.

Moody's said it was meeting several other companies, where analyses continued. It stressed, however, that future rating reductions should be modest in magnitude. It also said the "vast majority" of its rated insurance companies continue to be of "exceptional", "excellent" or "good" financial strength.

The recent downgrades leave

most of the companies in the A category - upper medium grade, adequately secured - or better. John Hancock moves from Aaa (exceptional) to Aa2 (middle of the excellent category); Massachusetts Mutual from Aaa to Aa1 (upper end of excellent); Mutual Life from A2 to Baal; New England Mutual from Aa1 to Aa2; Principal Mutual from Aaa to Aa1; and Travelers from A1 to Aa2.

However, although the downgrades are not substantial, they come at a time when there is every sign of a crisis of confidence in the industry.

Last week's seizure of New Jersey-based Mutual Benefit - the largest single insurance company collapse in the US - coupled with similar moves at a handful of other insurers in recent months has fuelled questions about the adequacy of existing insurance regulation. In some cases, fear of regulatory intervention has caused investors to surrender policies. That, in turn, has provoked the run on liquid assets which has made regulatory intervention necessary.

In view of this "confidence issue", two of the downgraded insurers were quick to respond. Principal Mutual claimed that nothing of consequence had changed in its property holdings to justify a lower assessment of its financial strength. Mutual of New York claimed that the rating was "totally inconsistent with the ratings we have from all other major rating services".

Moody's downgrades six US insurers

By Nikki Tait in New York

property-related assets. "Earnings will be under pressure, and capital formation will be slow at those companies with significant real estate exposure," it commented.

The downgrades cover John Hancock Mutual Life Insurance, the 10th-largest life company in the US; Massachusetts Mutual, ranking 15th; Principal Mutual, a leading player in the pension and group health sectors; Mutual Life Insurance Company of New York; New England Mutual Life Insur-

N.H. Geotech nurtures a field of dreams

Andrew Baxter talks to the group's chairman about plans for the future

As farmers throughout Europe and North America prepare for this year's harvest, a small group of seasonal tractor industry executives is embarking on a complex process whose benefits may take rather longer to reap.

It is almost a year since Fiat of Italy and Ford of the US announced they were merging their agricultural and construction equipment businesses to form N.H. Geotech. Fiat holds a 60 per cent stake in what is the world's largest tractor manufacturer, in terms of units sold.

The uncertainty created by the delay opened up a potential marketing opportunity for competitors, who at least one in the UK said it tried to exploit largely unsuccessfully, Fiatagri claims.

To make things worse, the new company's markets have plunged worldwide. In Italy, it is struggling to recover from the collapse of Federconsorzi, the farm services group which Fiatagri used as a tractor distribution network.

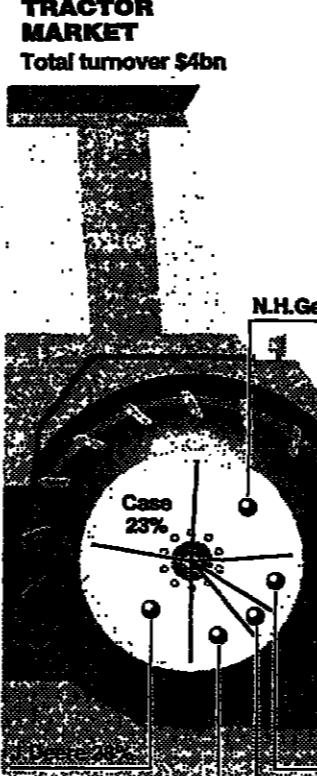
Hardly anybody is making money in the world tractor business this year. Fiat Geotech and Ford New Holland are each losing money, says Mr Garuzzo. "So, adding two losers, you get a bigger one," he adds.

But Fiat is sticking to the original strategy behind the deal, which is undermined by longer-term trends in the agricultural equipment market.

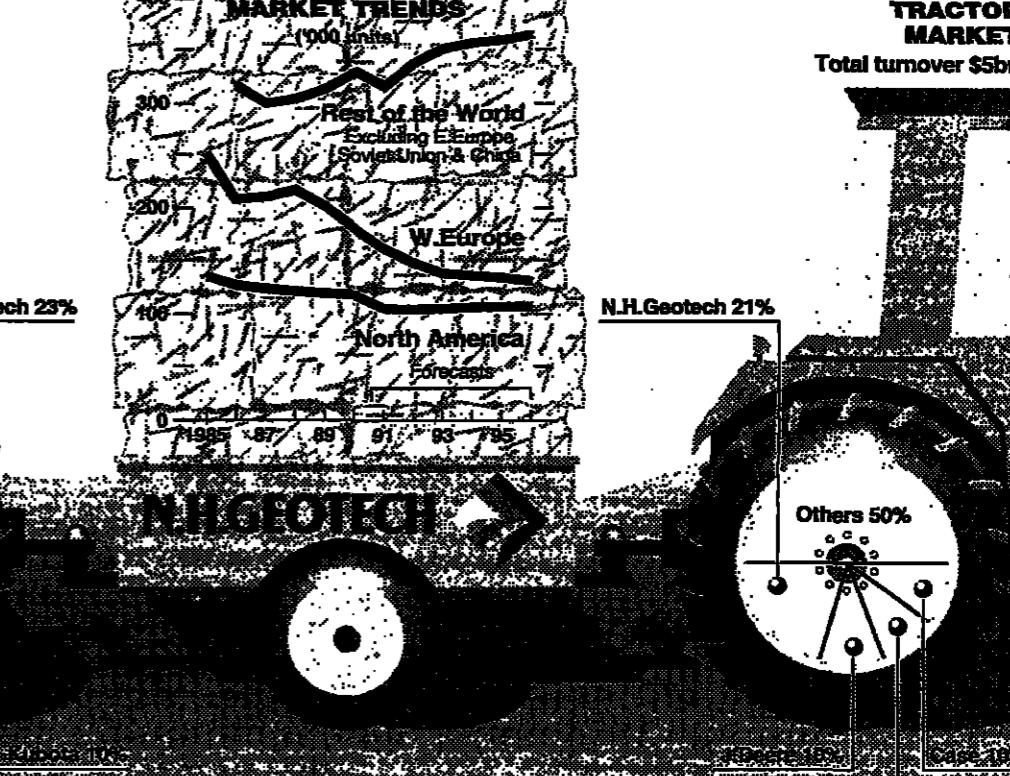
Neither Ford nor Fiat felt they were big enough to be competitive in an increasingly global market. They faced the choice of selling out or making an acquisition. "We were going more towards acquiring, so to speak, than investing, so we met," says Mr Garuzzo.

The deal gives N.H. Geotech 20 per cent of the world tractor market, a springboard for a long-term assault on the 50 per cent of the

NORTH AMERICAN TRACTOR MARKET Total turnover \$4bn



EUROPEAN TRACTOR MARKET Total turnover \$5bn



market which remains fragmented.

But N.H. Geotech's approach to getting the necessary financial strength varies in one important respect from the tractor mergers of the 1980s, notably the combination of JI Case and International Harvester to form the Case IH brand.

The new company plans to keep its distribution channels and brands separate, concentrating its savings on what Mr Garuzzo calls "industrial synergy" in the "backyard". These are common components, research and development, and a move towards specialised manufacturing in plants which can serve the whole group.

The retention of two dealer networks amazes some of N.H. Geotech's competitors in the UK, where total unit sales are down 20 per cent so far this year in a market battered by the recession,

the European Community's Common Agricultural Policy, and last year's excellent weather. "I just can't believe it - the market simply can't support it," says one rival.

Mr Garuzzo counters that the savings from merging the dealer network - one of the key assets for any tractor company - would have been minor compared with the trouble caused to customers used to dealing either with Ford or Fiat. The company also says the "double-dealer" issue affects only seven or eight countries.

The situation in the UK is, in any case, different to the rest of Europe. Fiatagri has just 3.5 per cent of the tractor market and is acquiring a leader with 24 per cent. N.H. Geotech officials believe there is scope to increase Fiatagri's share that would be lost by integrating the brands and networks.

The heavy rationalisation behind the scenes is less surprising, and has been an inevitable feature of all recent tractor industry mergers. Mr Garuzzo sees eventual savings of hundreds of millions of dollars without disturbing the distribution network.

Mr Garuzzo said the 2,800 employees at Basildon "can be sure that some rationalisation will occur. But if I was one of them, I would stay reasonably comfortable waiting to see what is to happen ... We are not here to close, otherwise we would not have done the deal."

Basildon produces 55,000 tractor engines a year, but the latest range would have been the last without Fiat's intervention. The deal will integrate that output in a worldwide business big enough to finance the next generation, Mr Garuzzo suggests.

The programme will affect N.H. Geotech's 17 plants worldwide in different measure as the company reduces duplication and encourages specialisation. In Europe, the three biggest plants are at Modena in Italy, Basildon in the UK and Zeelzegem, Belgium.

Whether N.H. Geotech's ever really rakes it in, however, will depend on its ability to exploit access to more than half the 1.2m units-a-year world tractor market. Here, Mr Garuzzo cites a paradox for the new company and all its rivals: "The people who need tractors have less money to pay for them."

US group studies Tace bid

By Maggie Urry in London

THERMO Electron, the US environmental group, will this week decide whether to increase its offer for Tace by Cambridge Electronic Industries (CEI) to win the bid battle for the environmental control equipment maker.

However, Baringa, CEI's investment bank, said yesterday it was confident that its client's position would stand. Late on Friday, CEI announced it had made an increased, recommended offer for Tace and had irrevocable undertakings to accept the bid from holders of 50.5 per cent of the shares.

CCF Corporate Finance, Thermo Electron's advisers, said yesterday that the US group would look at the undertakings when CEI's offer document is published later this week, to see if they would remain irrevocable in the presence of a higher or better bid. Then Thermo Electron would decide whether to increase its offer.

Baringa said yesterday: "They are irrevocable. They were very carefully drafted and signed." Baringa said Thermo Electron was free to examine the details of the undertakings.

CEI's offer is of eight new shares for every five Tace shares. It values each Tace share at 306p and the group at 229.9m on the basis of a CEI price of 191.4p. Thermo Electron's offer is of 253p in cash for each Tace share, worth 234.9m (£40m) in all.

CEI's announcement came after the stock market closed on Friday.

Thermo Electron is likely to make a statement today urging Tace shareholders not to take any action until the position is clear.

This announcement appears as a matter of record only.

July 1991



County NatWest Investment Management Limited

has been appointed advisor to

COMPANIES AND FINANCE

Shareholders to receive cash and shares

Stocklake opts for liquidation

By Maggie Urry

STOCKLAKE HOLDINGS, the overseas trading group, is going into voluntary liquidation in order to return £5.7m of excess cash to shareholders in a tax efficient manner.

Investors will also receive shares in Adam & Harvey, which owns the trading activities of Stocklake and which will seek Stock Exchange listing, and in Rea Brothers Group, the listed merchant bank in which Stocklake has a 4.7 per cent stake.

Rea Brothers, like Stocklake, is part of the Salomon family empire held together by cross-

shareholdings. About half of Stocklake's shares are held by other Salomon family companies. The family has been trying to simplify the empire since the death in 1987 of its founder, Sir Walter Salomon.

Stocklake estimates that for every 100 shares held investors will receive £1.33 in cash, 100 A&H shares and 43 Rea Brothers shares. Small shareholders can opt for cash instead of the Rea Brothers shares.

Using Friday's closing share prices of 33p for Stocklake

and 34p for Rea Brothers, the A&H shares would be worth about 154p each.

Stocklake says that on a pro-forma basis A&H would have declared earnings per share of 59.3p in the year to March 31, of which 23.7p cannot be remitted to the UK, and a net dividend of 10p.

That suggests an historic p/e of 3.1 or 6 on remittable earnings, and a yield of 7.3 per cent.

The rating is similar to that of Stocklake, based on pre-tax profits for the year to March 31 of £6.3m (£5.7m) and earnings

per share of 54p (53.9p), also announced yesterday. Turnover was £26.9m (£28m). No final dividend is proposed, leaving a total for the year of 5p (5.8p).

The timetable for the winding-up starts with an extraordinary general meeting to consider the deal on August 12. If approved, the A&H and Rea Brothers shares and 90 per cent of the cash would be distributed on September 16.

Trading should start in the A&H shares on September 17, and the remaining cash should be distributed on October 30.

Holmes investor calls for meeting

By Maggie Urry

THE DISAFFECTED investor group, which holds 25.4 per cent of the shares of Holmes Protection Group, the US-based security and alarm group whose shares are only listed in London, has called for a special meeting of shareholders. At the meeting the group will put resolutions to elect their representatives to the Holmes board.

The group is led by Mr Eric Kohn, a former director of Holmes, who wants to be chief operating officer of Holmes, and it proposes that Sir Ian MacGregor, former boss of British Steel and British Coal, should be chairman. Mr Kohn says that as well as the 25.4 per cent stake the group has the support of holders of another 14 per cent of Holmes.

Holmes has been struggling to restructure £51m of debt, having failed earlier this year to sell a subsidiary. Mr Tom Mayer, chairman, has said that the investor group's actions have hindered work on the debt restructuring.

ICI to build paint factory in China

IMPERIAL CHEMICAL INDUSTRIES is to build a £13m paint factory in the Guangdong province in southern China - the first ICI manufacturing plant on the Chinese mainland. The plant will have an annual capacity of 15m litres.

Residential Property Securities No.1 PLC

£200,000,000

Mortgage Backed Floating Rate Notes 2018

Notice of Partial Redemption

S.G. Warburg & Co. Ltd. announce that Notes for the nominal amount of £8,300,000 have been drawn for redemption on 22nd August, 1991, in accordance with Clause 5(b) of the Terms and Conditions of the Notes.

The distinctive numbers of the Notes drawn, are as follows:-

6	29	51	74	98	120	143	165	189	211
235	257	279	303	325	348	370	393	417	439
462	485	507	530	552	576	599	622	644	666
690	824	847	869	892	916	938	961	983	1006
1029	1050	1072	1097	1121	1146	1171	1196	1221	1246
1272	1302	1324	1344	1367	1389	1412	1436	1461	1485
1483	1506	1529	1551	1574	1598	1620	1643	1665	1689
1711	1735	1757	1779	1803	1823	1848	1870	1893	1917
1939	1962	1987							

On 22nd August, 1991 there will become due and payable upon presentation of each Note drawn for redemption, the principal amount thereof, together with accrued interest to said date, at the office of:

S.G. Warburg & Co. Ltd.

2 Finzley Avenue, London EC2M 2PA

or one of the other paying agents named on the Notes.

Interest will cease to accrue on the Notes called for redemption on and after 22nd August, 1991 and Notes so presented for payment should have attached all Coupons maturing after that date.

£140,900,000 nominal amount of Notes will remain outstanding after 22nd August, 1991.

22nd July, 1991

NOTICE OF PREPAYMENT

'OSTERREICHISCHE LÄNDERBANK = AKTIENGESELLSCHAFT

Yen 5,000,000,000

Floating Rate Notes 1992 (the "Notes")

In accordance with the Condition 5(A) of the Terms and Conditions of the Notes, notice is hereby given that Oesterreichische Länderbank Aktiengesellschaft will, on the interest payment date falling in September 1991, redeem all the outstanding Notes at their then Redemption Amount.

Payment of interest and reimbursement of Redemption Amount will be made in accordance with the Terms and Conditions of the Notes.

Vienna, 22nd July, 1991
Oesterreichische Länderbank Aktiengesellschaft
Am Hof 2
A-1010 Vienna
Austria



£80,000,000

Nationwide Anglia Building Society (Incorporated in England under the Building Societies Act 1956)

Subordinated Floating Rate Notes due July 1998

For the three months ended 17th July, 1991 to 17th October, 1991 the Notes will carry an interest rate of 11.1% per annum with a coupon amount of GBP 294.59 per GBP 10,000 Note, payable on 17th October, 1991.

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Bankers Trust Company, London

Agent Bank

Asahi

ASAHI BREWERY LTD.

Incorporated in Japan with Keidan Ltd.

£30,000,000,000

Floating Rate Notes

1996

In accordance with the Terms and

Conditions of the Notes, notice is

hereby given that the rate of interest

for the period 18th July, 1991

to 20th January, 1992 has been

fixed at 7.45 per cent. per annum

and that the coupon amount pay-

able on the 20th January, 1992

will be Yen 538 per note of

¥10,000,000.

THE SUMITOMO BANK,

LIMITED

(Agent Bank)

COMMERCIAL BANK OF LONDON

RESULTS FOR SIX MONTHS ENDED

30th JUNE 1991 (UNAUDITED)

The profit attributable to Shareholders for the half year ended 30th June 1991 amounted to £233,246.

It is anticipated that the profit for the full year to 31 December 1991 will show an improvement.

6 months to 30th June 1991

6 months to 30th June 1990

Gross Income £14,00,723 £1,994,673

Profit before taxation 369,246 527,411

Taxation 136,002 185,000

Profit attributable to

shareholders 233,246 342,411

Amount absorbed by

dividends £233,246 £342,411

Earnings per £5 share 25p 34p

No interim dividend is to be paid.

Copies of this announcement will be available to the public from the registered office

of the Company, Bankside House, 107-112 London Wall, London EC3A 4EE.

CORRECTION NOTICE

U.S.\$125,000,000

Alaska Housing Finance Corporation

Floating Rate Notes Due July 2001

Notice is hereby given that the rate of interest has been fixed at 6.6375% p.a. and that the interest payable for the current interest period July 17, 1991 to January 17, 1992 on the relevant Interest Payment Date January 17, 1992, in respect of U.S.\$10,000 nominal of the Notes will be U.S.\$334.14.

July 22, 1991, London

By: Citibank, N.A. (CSJ Dept.), Agent Bank CITIBANK

£18m debt led Hughes Food into receivership

By Chris Tighe

An £18m debt led to Hull-based Hughes Food Group being placed in receivership last Thursday.

The US-listed food supply and services group was placed in the hands of Coopers and Lybrand Deloitte following discussions between the group's directors and a syndicate of lenders, comprising UK and overseas banks and led by Samuel Montagu.

Since Mr Henry Roberts, formerly senior executive with Grand Metropolitan, was appointed chairman and chief executive of Hughes last October, the group has made a number of disposals of non-core businesses acquired during the swift expansion which followed its arrival on the USM in July 1986.

But an attempted restructuring involving a debt to equity conversion proved unsuccessful and when dealings in the group's shares were suspended last Wednesday they stood at 4p. They were originally placed at 15p in 1987.

Mr Mike Moore, one of the two joint administrative receivers, said 17 of the 22 companies which comprise the group were not subject to insolvency proceedings. He hoped to sell them as profitable going concerns. "Essentially we have here a good company trading at a profit but which is having to service a debt burden created by previous management problems," he said.

No redundancies are planned at present among the group's 700 employees, working in companies in England, Scotland, and Northern Ireland. The receivers said they were already getting inquiries from prospective purchasers.

The group originated in food machinery reconditioning and cold storage but diversified into fishing, food processing and distribution, convenience foods manufacture, construction and development.

Correction

Brasway

Pre-tax profits of Brasway, the West Midlands engineer, dropped from £2.1m to £1.5m in the year ended April 27 1991. In Friday's edition the figures given were incorrect.

INTERNATIONAL CROSS-BORDER DEALS

US companies in the limelight among international deals

By Brian Bollen

LAST WEEK'S biggest

international deals all featured US companies as targets.

ABN Amro Bank underlined

its commitment to international expansion with its first major acquisition since it was formed in August last year.

The purchase of Taiwan Federal S&L (US) Banking

from Equitable Savings & Loan of Chicago

will almost double its size in Illinois and make it one of the biggest financial companies in the US.

The announcement came just two weeks after ABN

Amro took full control of European American Bank.

Equitable Life featured in two transactions. In the first, French insurer Axa clinched the sizeable US presence it has

been coveting by agreeing to inject £1bn into Equitable Axa.

Axa will initially take up to 49 per cent, and will eventually be free to majority control.

Fast-diversifying Japanese

consumer credit company, Nippon Shinpan, is breaking into the insurance business by buying 70 per cent of Equitable's loss-making Japanese arm.

Prof that it is still possible

NWA bids for Pan Am air routes

By Nick Taft in New York

NORTHWEST Airlines, the fourth largest US carrier, has entered the bidding for parts of Pan Am, the ailing flight which filed for bankruptcy protection earlier this year.

NWA said it would offer \$3m for Pan Am's Detroit-London (Gatwick) route, or \$3m if a route between Los Angeles and Mexico City was included as well.

Pan Am's Detroit-London routes were included in the package of assets covering about one-fifth of its flight capacity which the airline agreed to sell to Delta for cash. The deal still needs regulatory and bankruptcy court approval.

Since then, Delta has said it is considering investing in Pan Am. Such a move would leave the latter controlling on its profitable Latin American routes and Miami hub and would appear to shut out United Airlines, which has put in a bid for these routes.

Salomon to join Italian train venture

By Helg Simonian and David Barchard

SALOMON BROTHERS is to become a founding shareholder in TAV, the new company which is developing a high-speed train network for Italy, at a cost of around £175,000m (\$215m).

It is taking a 15 per cent

holding for £150m. The US investment bank is one of around half a dozen non-Italian financial institutions joining the venture. Other foreign participants, which will have stakes of between 15 and 25 per cent apiece, include Credit Lyonnais and Banque Nationale de Paris of France, Swiss Bank Corporation and Citibank.

The TAV project, which was formally launched in Rome on Friday, is designed eventually to create a high-speed train network between Turin, Milan, Venice and Naples, bringing Italy up to date with developments in some neighbouring European countries.

Mr James Mawsey, chief executive of Salomon Brothers Europe, said Salomon's investment demonstrated its commitment to Europe and its belief in co-operation between government agencies and the private sector to improve Europe's infrastructure.

TAV is 40 per cent owned by state ferrovie dello Stato (Sfs), the Italian national railway company.

COMPANIES AND FINANCE

Banesto declines 38% on lower asset sale income

By Peter Bruce in Madrid

BANCO ESPANOL de Credito (Banesto), one of Spain's largest commercial banks, has reported first-half pre-tax profits of Pta24.7bn (\$525m), down 38 per cent on the first six months of 1990.

The decline in profits will be viewed as a healthy development since the setback mostly stems from a Pta17.5bn decrease in income from asset sales. Last year Banesto boosted profits from the sale of part of its large cement holdings.

Reflecting greater concentration on purely banking business, Banesto said its fee income had increased 45 per cent in the first six months of

1991 and its intermediation margin grew 14.3 per cent.

The figures do not include results from Banesto's industrial holding company, the Corporacion Industrial y Financiera, to which the bank transferred all its industrial holdings last year in an attempt to disintegrate the group's banking and industrial activities.

Banco Exterior, which is leading an operation to merge all of the state's financial institutions, said its first-half pre-tax profit had risen 19.7 per cent to Pta12bn, a 10.4 per cent increase in operating profits, which totalled Pta37.8bn.

Rand Mines stages recovery

By Philip Garrow in Johannesburg

TIGHT CONTROL of costs, a higher rand gold price and increased production allowed the four gold mines managed by the Rand Mines group to show a significant recovery in the June quarter.

After-tax profits totalled R21.2m (£7.4m) in the quarter, against a R30.4m loss in the previous quarter. Over the previous year, Rand Mines' gold operations had made cumulative after-tax losses of R57.7m.

The recovery mostly stems from significant rationalisation efforts at the group's largest mine, Harmony.

All four mines in the group

made a working profit in the latest quarter. Only ERM made an after-tax loss. Gold production in the group was 8.6 per cent up at 10.85kg; the average gold price received was 2.6 per cent higher at 33.630 rand/kg, and total costs at R26.6m were down by about 6.5 per cent.

Harmony had a particularly good quarter, turning a previous loss of R2m – largely the function of large severance payments – into a profit of R1m. This was despite a 37 per cent fall in underground gold production to 4.74kg in the quarter.

European group wins more time for de Havilland bid

By Bernard Simon in Toronto

THE CANADIAN government has extended for almost two months the deadline for a European commuter aircraft consortium, comprising Aerospatiale of France and Italy's Alenia, to finalise a revised bid for Toronto-based de Havilland of Canada.

The European group was initially due to respond by last Saturday to Ottawa's concerns that its initial bid for de Havilland did not provide a "net benefit" to Canada. But Investment Canada, the government's foreign investment watchdog, said late on Friday that the deadline had been extended to September 9.

An Investment Canada official said the extra time was warranted because "progress has been made" by the consortium in meeting conditions set by the government. He said the agency needed more time "to allow for adequate consideration of a new business plan and other related representations".

Aerospatiale and Alenia are proposing to buy de Havilland from the US aircraft maker Boeing, which has owned it since the company was privatised in 1986. The government's objections to the Europeans' initial bid include the absence of a local partner, concern about de Havilland's technology remaining in Canada and the level of government financial support demanded by the buyers. Details of the offer have not been disclosed.

US QUARTERLY RESULTS

BELL ATLANTIC, the US regional telephone holding company, has registered second-quarter net earnings of \$35.5m or 91 cents a share, up from \$33.7m or 91 cents a year ago, on sales of \$1.4bn, compared with \$1.26bn.

Net income after six months totalled \$31.5m or \$2.61 a share against \$29.2m or \$2.52. Sales were \$2.64bn against \$2.47bn.

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Compiled by Rivka Nachoma

Notice to the Warrantholders of

TAKASHIMAYA COMPANY, LIMITED

Warrants to subscribe for shares of common stock of Takashimaya Company, Limited issued with U.S.\$100,000,000

4% per cent. Guaranteed Bonds 1993 (the "Warrants")

Forwards to Class 4C of the instrument dated 25th February, 1990 (the "Instrument") in accordance with Condition 7 and 11 of the Terms and Conditions of the Warrants notice is hereby given that:

Due to issues by Takashimaya Company, Limited ("the Company") on 16th July, 1991 to October 18, 1991 the Notes will carry an interest rate of 6.525% per annum with an interest amount of \$29,017.8 per \$1,000,000 Note.

The relevant interest payment date will be October 18, 1991.

Agent Bank: Banque Paribas Luxembourg Societe Anonyme

Dated: 22nd July, 1991

Notice of Interest Determination MORGAN STANLEY GROUP INC. Floating Rate Notes Due 1993

Interest on the above securities for the Interest Period of July 16, 1991 through January 15, 1992 is scheduled to be paid on January 16, 1992 at the Interest Rate of 6.625% per annum. The Interest Amount will be \$338.61 per \$10,000 of principal.

The First National Bank of Chicago,

Reference Agent

July 22, 1991



Gold mining companies' reports

and dividend announcements

for the quarter ended 30 June 1991

Durban Roodepoort Deep, Limited

(Incorporated in the Republic of South Africa) Registration No. 01/002200/0

ISSUED CAPITAL: R2 000 000 IN 2 320 000 SHARES

OPERATING RESULTS

Quarter ended 30.06.1991 31.03.1991 Six months ended 30.06.1991

Underground operations

Ore milled (t) 273 000 257 000 500 000

Gold produced (kg) 120 000 115 000 215 000

Cost (Rm) 1 000 1 000 1 000

Revenue (Rm) 20 772 20 822 32 267

Gross profit (Rm) 18 772 18 822 21 267

Revenue (Rm) 126.47 126.21 126.25

Cost (Rm) 112.95 112.95 112.95

Working profit (Rm) 13.52 13.26 13.30

Stand. Treatment

Ore milled (t) 187 000 210 000 307 000

Gold produced (kg) 120 000 115 000 215 000

Cost (Rm) 1 000 1 000 1 000

Revenue (Rm) 20 772 20 822 32 267

Gross profit (Rm) 18 772 18 822 21 267

Financial Results (Rm)

Revenue 37 655 37 711 75 181

Cost 18 915 18 965 30 000

Revenue (Rm) 3 712 2 518 6 225

Cost (Rm) 2 000 1 800 3 800

Working profit (Rm) 911 718 2 217

Stand. Treatment

Ore milled (t) 187 000 210 000 307 000

Gold produced (kg) 120 000 115 000 215 000

Cost (Rm) 1 000 1 000 1 000

Revenue (Rm) 20 772 20 822 32 267

Gross profit (Rm) 18 772 18 822 21 267

Financial Results (Rm)

Revenue 174 115 180 620

Cost 103 555 103 555

Revenue (Rm) 18 772 20 822 32 267

Cost (Rm) 12 000 12 000

Working profit (Rm) 6 772 8 822 12 267

Stand. Treatment

Ore milled (t) 187 000 210 000 307 000

Gold produced (kg) 120 000 115 000 215 000

Cost (Rm) 1 000 1 000 1 000

Revenue (Rm) 20 772 20 822 32 267

Gross profit (Rm) 18 772 18 822 21 267

Financial Results (Rm)

Revenue 174 115 180 620

Cost 103 555 103 555

Revenue (Rm) 18 772 20 822 32 267

Cost (Rm) 12 000 12 000

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Financial Results (Rm)

Revenue 174 115 180 620

Cost 103 555 103 555

Revenue (Rm) 18 772 20 822 32 267

Cost (Rm) 12 000 12 000

Working profit (Rm) 6 772 8 822 12 267

Stand. Treatment

Ore milled (t) 187 000 210 000 307 000

Gold produced (kg

UK GILTS

New issue doubts sour party mood

THE unexpected announcement of a fifth tranche of UK government bonds in a far from popular maturity range caused a sudden decline in gilt prices on Friday night, against the trend earlier in the week.

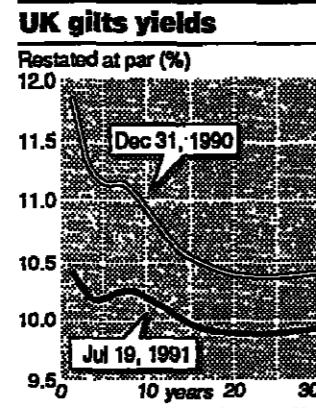
The announcement was part of the Bank of England's move to issue an expected £15bn or so of gilts during this financial year, to fund the government's deteriorating public sector account.

However, it served up a reminder of the susceptibility of the market to new funding issues, which can in general be expected to push down prices and increase yields.

What worried some traders on Friday night was not the size of the issue but the stock itself - a 9 per cent conversion loan due in 2011. It will be available for dealing from today.

The bonds fall in a maturity range that is not particularly liquid. This led to gloom in some sections of the market where it was thought the stocks would be far from favoured among investors.

The bonds carry an issue price of 92.50, of which 30 per cent will be payable immediately, 30 per cent payable on August 19 and a further 32.5 per cent on September 9. Reflecting the disquiet, the price of existing stock of this type fell by nearly half a point to 91.75 immediately after the



Bank's announcement. There was also a fall in prices of other long-dated securities, which pushed them back to virtually the same levels as at the beginning of the week.

Prior to the Bank's unveiling of the issue on Friday, long-dated bonds had performed relatively well during the week on the back of hopes about falling UK inflation over the next year.

Short-dated bonds, however, showed little rise over the week, as traders became less hopeful about the imminence of further cuts in official UK interest rates.

The firm state of the market had led earlier in the week to the Bank being able to sell the complete stock of bonds it had announced on July 12.

These were two tranches, each worth £250m, of 12 per cent exchequer stock due 1996 and 9.5 per cent conversion stock due 2003.

A reminder of the extent to which the Treasury is running into financing problems on its public sector account is the £8.5bn borrowing requirement for the first three months of 1991-92, the biggest quarterly figure since 1981.

The government expects to recover lost ground later in the year, as local authorities make headway in collecting delayed poll-tax payments, and as it feels the benefit of the higher VAT charges announced earlier this year.

However, few analysts expect the government to keep to its forecast that the total borrowing requirement for the year will be restricted to £25bn, and many believe this may rise to as much as £21bn.

One specific worry for the Treasury is related to the likely delay in selling part of the government's stake in British Telecom, due to a row over the regulatory aspects to UK telecommunications policy. A delay until mid-1992, or beyond, could easily top £2bn off the government's estimates for its likely receipts this financial year from privatisation deals.

In spite of concern over the borrowing issue, the market was in a fairly calm mood last

week about general economic prospects, with the statistics of the past few days supporting the notion that a rapid recovery from the year-long recession is unlikely.

Gilt practitioners took heart from evidence in Thursday's labour market statistics showing a reduction in the annual rate of rise in average earnings across the economy, from 8.4 per cent in April to 8.4 per cent in May.

In services, which accounts for more than two-thirds of the workforce, the downward pressure on wage settlements has been still more marked.

While the annual rate of increases in average manufacturing earnings in May was 8.4 per cent, the same as the revised figure for April, the figure for services declined from a revised 8.6 per cent to 8 per cent.

The figure for manufacturing has come down from 9.4 per cent in January, a 1% percentage point decline, while for services the number has dropped by a full 1% percentage points.

The data back up the view that wage inflation has been falling rapidly, and that the Treasury's forecast that retail price inflation will be down to a yearly rate of 4 per cent by December looks entirely credible.

Peter Marsh

GLOBAL BOND PORTFOLIOS

Investors reduce German exposure

INVESTORS have adjusted their global bond portfolios recently for two reasons.

First, they are concerned about rising inflation in Germany and so have reduced their exposure to the German and Dutch government bond markets.

Second, many are wondering whether the dollar will continue to strengthen against the European currencies and hence whether they should increase or reduce their dollar holdings.

Whittingdale, the fund management group, had about 15 per cent of its international fund invested in D-Marks six months ago.

However, it has switched out of any D-Mark exposure because of worries that "reuni-

fication will restrict German economic growth for a considerable period, weakening the currency".

The main concern is that while inflation appears to be falling in other industrial economies, in Germany, inflation is expected to rise from 3.5 per cent to more than 4 per cent.

In common with many other fund managers, Whittingdale has switched this money into US Treasury bonds and French government bonds. The group's international fund has about 60 per cent of its assets in US Treasury bonds, 9 per cent in Canadian government bonds, 20 per cent in gilt bonds and 8 per cent in French government bonds.

However, Mr Henderson believes that the yen will con-

tinue to appreciate against sterling, providing currency gains for holders of Japanese government bonds.

Currency gains aside, most bond investors expect international bond markets to rally towards the end of this year as inflation levels decline in most of the large economies.

On the European front, fund managers such as Garimore expect to see the bond markets pick up again towards the end of the year.

Both France and the UK are expected to provide the highest returns over the next year, though investors point out that neither market is free of political risk.

Sara Webb

In the short-term, many fund

managers expect to see a further strengthening of the dollar and of the yen, making US Treasuries and Japanese government bonds an attractive home for their funds.

Most regard the dollar's recent setback as a temporary correction and think the US currency will continue to strengthen against European currencies.

However, Mr Nick Henderson, head of fixed income at Garimore, is less bullish about the US.

As a result, Garimore's international fixed income fund has reduced its holding in US Treasuries from 40 per cent to 25 per cent recently.

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INTERNATIONAL CAPITAL MARKETS

SYNDICATED LOANS

Turkey returns after year-long absence

THE REPUBLIC of Turkey has returned to the syndicated loan market with a three-year \$100m loan after an absence of two years. However, some bankers have suggested that the loan may prove difficult to syndicate given weak demand for medium-term Turkish loans.

Mitsubishi Bank and Sumitomo Bank, the joint arrangers, are currently putting together an underwriting group and offering tranches of \$15-20m to banks. The margin is 90 basis points over the London interbank offered rate (Libor), plus fees, though these have not yet been disclosed.

Turkey's government estimates it lost about \$5bn in revenue from the Iraqi oil pipeline and tourism during the Middle East crisis. However, soft loans and grants from donors will cover half of the projected \$4bn required in 1991 to service Turkey's \$45bn foreign debt, according to the Turkish Treasury.

So far this year, Turkey has issued a DM350m five-year bond, announced in May, and is considering whether to roll up its syndicated loan with a Yankee bond - a dollar-denominated bond issued in the US market - this autumn.

Meanwhile, bankers expect the steady flow of Turkish loans to continue over the next few months given the level of pent-up demand seen during the Gulf war when the market was virtually closed to Turkish borrowers.

• **Household Finance (HFC)** has signed a £100m four-year revolving credit with Morgan Grenfell as the arranger. The credit facility will replace a Multi-Option Facility (MoF) which expired recently, and will be used for general corporate purposes.

The margin is 45 basis points over Libor and there is a commitment fee of 22.5 basis points on the undrawn amount. Participation fees range from 8-12 basis points.

Many British companies took out MoFs in the late 1980s as a form of cheap insurance in case they needed to draw on extra funds. The MoFs provided a range of competitive standby funding options and were often arranged on very favourable terms for the borrowers.

In the case of HFC, the MoF was a five-year £100m credit with a committed margin of 15 basis points and a standby fee of 10 basis points - well below current pricing levels as the new credit facility illustrates.

INTERNATIONAL BONDS

Euromarkets put brave face on unwelcome questions

THE "polite inquiry" by Britain's Office of Fair Trading into new issue practice in the Eurobond market comes at a sensitive time. Having flourished as an offshore arena, the market is now trying to define and defend its position under a new European Commission regulatory regime.

Hence the AIBD and IPMA are fighting proposed amendments to the draft Investment Services Directive (ISD), which could drive securities business back on to domestic markets.

Firstly, the Association of International Bond Dealers, the regulatory body for the Eurobond market in the UK, is working to have its rule book recognised by the European Commission. AIBD is concerned that even the passing of the IPMA could cause the European Commission competition authorities to look again at the Eurobond market.

This could cloud the task of having the AIBD rule book accepted by the officials at DG 4 - the department of the European Commission which is concerned with competition policy. The process of approval is nearing its final stages and the AIBD is hoping for a "letter of comfort" from the EC before the year-end and does not want any last-minute hitches.

Hence the AIBD is keen to point out that its rule book does not cover new issue syndication and allotment, the areas in which the OFT is interested. This fails to the International Primary Markets Association, a trade association which represents the leading new issue firms.

IPMA in turn points out that it issues recommendations rather than rules. These have to be approved unanimously by the IPMA board and are

cleared by the OFT before they are published.

Secondly, the AIBD and IPMA are fighting proposed amendments to the draft Investment Services Directive (ISD), which could drive securities business back on to domestic markets.

The ISD was intended to give securities firms a "single passport" to do business across the European Community to match that given to banks under the Second Banking Directive. However, a number of European governments, led by the French, have proposed that trading of securities should be restricted to "regulated markets" - in the name of investor protection.

The Eurobond would not qualify as a regulated market, primarily because it has no formal listing requirements to qualify

as a "regulated market". There are fears that even an initial, polite inquiry by a competition watchdog could provide ammunition for those who want to ban trading outside "regulated markets".

The French amendments are being firmly opposed by many other governments, including the UK. The commission also favours allowing investors to continue dealing away from regulated markets. A compromise tabled by the Dutch proposes to allow trading of securities away from a regulated market - and therefore in the Eurobond market - so long as the investor has given explicit authorisation.

While Eurobonds currently have to be reported through the AIBD's Trax reporting system within 30 minutes, Eurobond firms are not required to publish price or volume information.

Trax has the capacity to carry "real-time" price and volume information, but this has always been vigorously resisted by market participants. They say the Eurobond

market is primarily a "professional" market, dominated by sophisticated investment institutions, so investor protection is unnecessary. The AIBD bowed to this view and abandoned plans for screen-based price quotations as long ago as 1987. Hence the Eurobond market has remained a market lacking in secondary market transparency. New issue rules are set by IPMA. Regulation remains light.

Yet as a formula for raising long-term finance the Eurobond system has proved attractive. The \$22bn raised in the first half of this year is clear evidence of this. The attention of the OFT, the EC or the French government is not welcomed.

Simon London

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount	Maturity	Av. life	Coupon	Book runner	Offer yield	%	Borrowers	Amount	Maturity	Av. life	Coupon	Book runner	Offer yield	%
US DOLLARS															
Tobu Railway(c) ^a	300	1995	4	4%	100	Yamaichi Int.	4.25%	Nissens Construction(s)a+k ^b	100	1995	-	4	100	1.997	
Showa Elec.(s)a+k ^b	120	1995	4	4%	100	Daiwa Europe	4.25%	McDonalds Aust.Property ^c	100	1995	-	5%	101.12	6.390	
Tokyu Hotel Chain(s) ^b	120	1995	4	4%	100	Yamaichi Int.	4.25%	Kanebo(g)a+k ^b	150	1995	-	4	100	4.040	
Tatsunaka Plastic Ind.(b) ^b	100	1995	4	4%	100	Daiwa Europe	4.25%	Riso Kagaku+k ^b	30	1995	-	5%	100	5.576	
Tung Ho Steel Ent.(s)a+k ^b	40	2001	10	4%	100	Jardine Fleming	4.00%	Shindengen Electric(s)a+k ^b	80	1995	-	5%	100	3.625	
Exp.Dev.Corp of Canada(l) ^b	200	1994	3	7%	101.2125	CSFB	7.28%	Konan(m)a+k ^b	50	1995	-	5%	100	3.875	
Komatsu Seirent ^d	100	1995	4	4%	100	Nikko Secs.	4.50%	Osaki Electric Co.(n)a+k ^b	50	1995	-	4	100	4.040	
SAC Corp ^e	100	1995	4	4%	100	Nikko Secs.	4.50%	Wirschauf & Privatb. ^f	100	1995	-	5%	100	3.500	
St. George B.S.(U) ^b	100	1995	7	7%	100	DB	-	New Japan Secs.(Switz)	75	1995	-	7	101.12	5.118	
Hilti Capital(l) ^b	200	1995	4	8%	101.325	Daiwa Europe	7.851	Vestaro Chemicals Finance ^f	75	1995	-	5%	100	6.751	
Credit Local de France ^f	200	1995	4	8%	100	Nikko Secs.	4.50%	Takao Co.(s)a+k ^b	20	1995	-	7%	100	3.625	
Tetra Corp ^b	100	1995	4	4%	100	Daiwa Europe	4.875	Rio Chain Co.(s)a+k ^b	35	1995	-	5%	100	3.500	
Shiroki Corp ^b	90	1995	4	7%	100	Nikko Secs.	-	Nikko Co.(s)a+k ^b	100	1995	-	4	100	4.000	
Central Int.(g) ^b	60	1995	5	(3%)-10%	100	Merill Lynch	-	Mandom Corp.(s)a+k ^b	70	1995	-	5%	100	5.576	
Osaka Cement Co.(r) ^b	100	1995	4	4%	100	Nomura Int.	4.50%	Nissha Corp.(s)a+k ^b	100	1995	-	5%	100	3.531	
Toyota Motor Credit Corp ^b	200	1995	4	8%	100	CSFB	7.820	UBS	-	-	-	-	-	-	
Banobras(l) ^b	100	1995	5	10%	101.425	CSFB	10.371								
Mitsubishi Cable Inds. ^b	130	1995	4	4%	100	Nikko Secs.	4.50%								
JGC Corp ^b	100	1995	4	4%	100	Nomura Int.	4.50%								
Taisei Holland ^b	15	1995	7	6%	101.74	Fuji Int. Fin.	8.435								
STERLING															
Rola-Royce ^b	150	1995	7	11%	101.465	S.O. Warburg	11.311								
ECUs															
LKB Baden-Wuerttemberg ^b	150	1995	5	9%	101.425	Nomura Int.	5.995								
Mitsuo Corp ^b	70	1995	4	5%	100	Nikko Secs.	5.500								
JGC Corp ^b	70	1995	4	5%	100	Nikko Secs.	5.500								
CANADIAN DOLLARS															
PP American ^b	200	2001	10	10%	101	J.P. Morgan Secs.	10.707								
Pepsi & Gablet ^b	200	2001	10	10%	101.30	Goldman Sachs	10.657								
British Gas Int.Fin. ^b	200	1994	3	10%	101.165	Goldman Sachs	9.535								
AUSTRALIAN DOLLARS															
State BN.LNSW ^b	100	2001	10	11%	100	Deutsche Bk.Cap.Mds.	11.750								
FRENCH FRANCS															
Societe Generale ^b	6bn	1992	1	9%	99.95	Societe Generale	9.522								
Credit Lyonnais ^b	3bn	1992	1	9%	99.95	Credit Lyonnais	9.544								
D-MARKS															
Hoopers on Stahl ^b	150	1998	5	9%	101.14	Deutsche Bk.	8.881								
Mr Max Corp ^b	100	1995	4	5%	100	Nomura Europe GmbH	5.000								

WORLD STOCK MARKETS

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AUTHORISED UNIT TRUSTS

2007 **2008** **2009** **2010** **2011** **2012** **2013** **2014** **2015** **2016**

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- Current Unit Trust prices are available on FT Cityline. Calls charged at 45p per minute peak and 34p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 825-2128.

FT MANAGED FUNDS SERVICE

- Current Unit Trust prices are available on FT Cityline. Calls charged at 40p per minute and 34p off peak, inc VAT. To obtain your free Unit Trust Code Booklet ring (071) 925-2128.

MONEY MARKETS

Anticipating events

THERE HAS been a tendency for the foreign exchanges this year, reacting well ahead of the monetary policy. When the dollar began its upward surge in February it was a reaction to expectations that the US economy was on the verge of recovering from recession.

UK clearing bank base lending rate
11 per cent
From July 12, 1991

There was no strong evidence of a recovery, and it is only now that the economic figures are looking consistently encouraging. In the meantime the dollar gained a high of about DM1.8400, before it was hit hard by central bank intervention, but it could be that the market's infatuation with the US currency was about to cool away.

During the last week the dollar has fallen sharply against European currencies, and particularly the D-Mark.

IN NEW YORK

July 19	Clos	Previous Close
\$Spot	1,690.00	1,655.00 1,656.00
1 month	1,727.00	1,677.00 1,678.00
12 months	1,807.00	1,700.00 1,700.00
Forward premium and discounts apply to the US dollar		

STERLING INDEX

July 19	Clos	Previous Close
8.30	90.9	90.5
10.00	91.0	90.7
11.00	91.0	90.8
12.00	91.0	90.7
2.00	90.9	90.7
4.00	91.0	90.7
7.00	91.1	90.7
10.00	91.1	90.7
12.00	91.1	90.7

Margins: Quotations: average 1980-1982=100. Bank of England index (Base 1982)=100. Rates are for Jul 18

Forward premiums and discounts apply to the US dollar

* All SDM rates are for Jul 18

CHICAGO

Jul 19	Bank & Special * %	European 1 %	Other 1 %
US Dollar	0.7622/42	0.7622/42	0.7622/42
Canadian \$	1.3293	1.3297	1.3297
Australian \$	1.3774	1.3774	1.3774
French Fr	7.50	7.5159	7.5159
Swiss Franc	1.3527	1.3527	1.3527
German DM	0.6750	0.6750	0.6750
British £	1.0140	1.0140	1.0140
Italian Lira	10.00	10.00	10.00
Spanish Pta	10.00	10.00	10.00
Swedish Kr	1.00	1.00	1.00
Norwegian Kr	1.00	1.00	1.00
Dutch Guilder	1.00	1.00	1.00
Icelandic Kr	1.00	1.00	1.00
U.S. Treasury Bills	0.7622/42	0.7622/42	0.7622/42
** Selling rates			
FT FOREIGN EXCHANGE RATES			
Sterling	1.4600	1.4600	1.4600
US Dollar	0.7622/42	0.7622/42	0.7622/42
Canadian \$	1.3293	1.3297	1.3297
Australian \$	1.3774	1.3774	1.3774
French Fr	7.50	7.5159	7.5159
Swiss Franc	1.3527	1.3527	1.3527
German DM	0.6750	0.6750	0.6750
British £	1.0140	1.0140	1.0140
Italian Lira	10.00	10.00	10.00
Spanish Pta	10.00	10.00	10.00
Swedish Kr	1.00	1.00	1.00
Norwegian Kr	1.00	1.00	1.00
Dutch Guilder	1.00	1.00	1.00
Icelandic Kr	1.00	1.00	1.00
U.S. Treasury Bills	0.7622/42	0.7622/42	0.7622/42
** Selling rates			
FT LONDON INTERBANK FIXING			
11.00 a.m. July 19 3-month US dollars			6-month US Dollars
Mid 6 offer 6.92 Mid 6.92 offer 6.92			
The fixing rates are the arithmetic means rounded to the nearest one-thousandth of the bid and offered rates for \$100m quoted by the reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.			
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Norwegian Kr	1.00	1.00	1.00
Dutch Guilder	1.00	1.00	1.00
Icelandic Kr	1.00</		

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TRANSPORT - Contd

INVESTMENT TRUSTS - Contd

WATER

MINES - Contd

Price

Int'l.

Stock

Price

Int'l.

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

NYSE COMPOSITE PRICES

Pt 6a
2001
High Low Stock. Div. YM, E 199a High
Continued from previous page

NASDAQ NATIONAL MARKET

4.00 pm prices July 1

Stock	P/	52w	High	Low	Last	Chg	Stock	P/	52w	High	Low	Last	Chg	Stock	P/	52w	High	Low	Last	Chg	Stock	P/	52w	High	Low	Last	Chg
AACBrands	0.20	25	79	36	32	-1	DF Sweet	0.20	11	72	52	8	-1	LDOCS A	37	1600	232	224	23	+1	See Banc	1.00	10	128	301	281	-1
ACC Corp	0.10	20	360	117	104	-1	DH Tech	0.8	9	75	60	63	-1	Lev Patis	0.28	15	63	75	72	-1	SEI Cp	0.10	23	7	261	257	-1
Acadia E	8	5008	33	33	33	-1	Ditrell B	0.96	18	142	12	12	-1	Lev Fars	0.28	16	467	124	94	-1	SelBsd B	0.36	8	16	81	74	-1
Accredited	20	105	145	145	145	-1	Digi Ind	22	2203	23	21	21	-1	Lancaster	0.80	10	2304	69	94	-1	Selectors	1.04	9	427	151	147	-1
Acme Co	14	28	117	104	114	-1	Dig Micro	17	1726	17	74	74	-1	Lansdale	0.09	22	765	92	92	-1	SensorNet	2.26	2015	87	151	151	-1
Adaptotech	11	600	137	125	125	-1	Dig Sound	8	273	74	74	74	-1	Lattice S	1.20	12	58	112	117	-1	Sequent	30	1663	87	151	151	-1
ADG Tech	50	38	56	56	56	-1	Dig Synt	15	65	172	14	14	-1	Lattice Pr	0.40	10	242	294	284	-1	ServTech	22	30	118	191	184	-1
Adis Serv	0.16	20	7	22	22	-1	Disk Drp	0.40	10	767	54	54	-1	LDS C	0.20	10	242	294	284	-1	ServTrac	70	70	4	4	4	-1
Adobe Sys	0.32	23	4903	48	48	+1	DNA Plat	-	-	-	-	-	-	Leathers	0.20	10	57	121	124	-1	Shredded	0.84	21	173	223	212	-1
ADT Air I	3	4	7757	104	95	-1	Duke Grp	0.20	22	1747	185	185	-1	Leather Co	0.20	10	208	155	155	-1	Shredded	3.0	600	212	212	212	-1
Advance C	7	35	65	65	65	-1	Duke Hse	0.44	22	850	114	114	-1	Legend C	0.20	10	150	20	20	-1	Shredded	1.14	1061	55	55	55	-1
Adv Logic	11	1645	154	154	154	-1	Dynatag	10	205	114	114	114	-1	Legend G	0.20	10	1810	26	26	-1	Shredded	1.12	84	85	85	85	-1
Adv Polys	12	1054	154	154	154	-1	Dynatag	10	205	114	114	114	-1	Legato T	1.05	10	205	523	523	-1	Shredded	1.10	34	35	35	35	-1
Adv Tote	0.20	13	761	215	204	-1	Dynatag	10	205	114	114	114	-1	Leighco	0.20	10	45	184	184	-1	Shredded	1.0	170	15	14	14	-1
Adv Sys	0.84	5	2100	565	565	-1	Dynatag	0.27	16	246	246	246	-1	Leighco	0.00	24	7	45	45	-1	Shredded	2.20	52	42	42	42	-1
Advantek	0	5	6	6	6	-1	Dynatag	0.27	16	246	246	246	-1	Lincoln C	1.18	7	593	22	22	-1	Shredded	0.22	22	41	41	41	-1
Agency Re	0.07	18	2280	147	147	-1	Dynatag	0.27	16	246	246	246	-1	Lincoln F	0.80	10	264	29	29	-1	Shredded	51	126	10	95	95	-1
AgileSoftEx	0.07	13	321	67	67	-1	Dynatag	0.27	16	246	246	246	-1	Lincoln F	1.18	7	593	22	22	-1	Shredded	7.0	850	74	74	74	-1
Air Miles	1.06	207	294	294	294	-1	Dynatag	0.27	16	246	246	246	-1	LinearTec	0.00	24	7	262	262	-1	Shredded	7.3	5076	74	74	74	-1
Airex Cp	24	26533	44	42	42	-1	Dynatag	0.27	16	246	246	246	-1	LiquidBox	1.00	16	32	57	57	-1	Shredded	0.66	24	522	104	104	-1
Alex Brvt	0.28	17	2207	161	161	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.01	16	32	134	134	-1	Shredded	1.84	8	715	67	67	-1
Alex Ed	0.80	12	2058	23	23	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.30	3	22	25	25	-1
Alego SW	0.17	11	114	5	5	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Alion Corp	0.40	11	3	31	31	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Alitran	0.00	2	222	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
AltisCapd	1.00	8	105	16	16	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
AltisCapd	0.80	10	32	16	16	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Allwest Co	0.17	10	1588	53	53	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Alta Gold	0.03	10	45	11	11	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Altra Co	0.00	26	1967	20	19	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Bank	0.00	8	505	16	16	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582	65	65	-1	Shredded	0.22	22	41	41	41	-1
Am Civ Tr	0.00	2	207	14	14	-1	Dynatag	0.27	16	246	246	246	-1	Lumenstar	0.00	24	582										

AMEX COMPOSITE PRICES

4:00 pm prices July 19

AMEX COMPOSITE PRICES															4.00 ptm prices July 19																	
Stock	P/E			Size		P/E			Size		P/E			Size		P/E			Size		P/E			Size								
	Div.	E	1000	High	Low	Closng	Chg	Stock	Div.	E	1000	High	Low	Closng	Chg	Stock	Div.	E	1000	High	Low	Closng	Chg	Stock	Div.	E	1000	High	Low	Closng	Chg	
Ac & P	0	163	4	51%	4%	45	-1	China	18	10	51	51	51	51	-1	Hastro	0.24	18	1152	294	294	294	294	-1	GM Corp	0.14	15	634	8	8	8	-1
Acme Corp	0	51	4	45	4	45	-1	CM Corp	0	40	11	11	11	11	-1	Hastro	1	35	114	114	114	114	-1	Mell Corp	0.44	25	880	374	362	362	-1	
Acu Envir	18	45	520	51	50	50	-1	Centra Fda	73	74	45	45	45	45	-1	HealthNet	1	35	114	114	114	114	-1	Pagew G	0.6	26	134	134	134	134	-1	
Acu Ind	0	2	45	15	14	14	-1	Computer	73	45	215	215	215	215	-1	Halo Qtr	0.10	14	3	115	115	115	115	-1	Perini	0.31	12	114	104	104	104	-1
Acu Int'l	19	0	45	35	35	35	-1	Digital Rm	7	7	60	45	45	45	-1	Hinge En	1	10	10	10	10	10	10	-1	Phl LD	0.17	8	1110	185	185	185	-1
Acu Int'l	19	0	45	35	35	35	-1	Comd Air	0	850	2	12	12	12	-1	Hiltwaven	1764	3	120	25	25	25	-1	Phl Hwy A	0.10	10	61	367	72	72	-1	
Acu Int'l	0	51	629	35	35	35	-1	Corsair A	0.10442	252	45	45	45	45	-1	Horn&Hof	3	120	45	45	45	45	-1	Phl Hwy C	0.12	61	367	72	72	72	-1	
Acu Int'l	0	54	12	55	55	55	-1	Croatia A	1.28	16	429	255	255	255	-1	Hovawart	32	33	71	71	71	71	-1	Predator	0.10	3	0	27	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Cross CA	0.40	14	38	50	247	247	-1	ICH Corp	5	134	3	3	3	3	-1	Price Cos	0.58	10	0	40	8	8	-1	
Acu Int'l	0	54	12	55	55	55	-1	Cross Esq	0.45	11	16	16	16	16	-1	Indstry	0.51	0	20	35	35	35	-1	Pro Med	0.58	4	40	8	8	8	-1	
Acu Int'l	0	54	12	55	55	55	-1	Cubic	0.53	6	163	163	55	55	-1	Intelsys	0	10	11	11	11	11	-1	Pro Care	0.58	4	40	8	8	8	-1	
Acu Int'l	0	54	12	55	55	55	-1	Customex	1.28	16	429	255	255	255	-1	Intermark	0	127	11	11	11	11	-1	RBCW Cp	0	0	0	0	0	0	-1	
Acu Int'l	0	54	12	55	55	55	-1	CybernetFd	0	124	124	2	2	2	-1	IntTelsig	0	344	0	0	0	0	-1	Rockwell	0	0	0	0	0	0	-1	
Acu Int'l	0	54	12	55	55	55	-1	Delimed	6	16	163	6	163	163	-1	Jen Bell	40	251	13	13	13	13	-1	Ruston	0.82	10	16	20	20	20	-1	
Acu Int'l	0	54	12	55	55	55	-1	Di Ind	18	163	163	163	163	163	-1	Klein Cpl	7	847	7	7	7	7	-1	Schindler	0.82	22	8	8	8	8	-1	
Acu Int'l	0	54	12	55	55	55	-1	Diamond	11	16	163	163	163	163	-1	Lionel Cpl	0	127	11	11	11	11	-1	Stear El	0.40	8	563	123	123	123	-1	
Acu Int'l	0	54	12	55	55	55	-1	Duplex	0.78	16	163	145	145	145	-1	Lyon Cpl	21	16	163	15	15	15	-1	Synallow	0.40	8	563	123	123	123	-1	
Acu Int'l	0	54	12	55	55	55	-1	DW Corp	2	124	2	2	2	2	-1	Leberge	17	26	26	26	26	26	-1	Tel Ind	0.82	12	2	36	2	2	-1	
Acu Int'l	0	54	12	55	55	55	-1	Easte Co	0.56	9	50	125	125	125	-1	Leer Md	4	82	3	3	3	3	-1	Tel Prod	0.40	55	112	15	15	15	-1	
Acu Int'l	0	54	12	55	55	55	-1	East Bay	2.00	15	5	145	145	145	-1	Le Poer	3	4	1	1	1	1	-1	TelData	0.30	39	364	34	34	34	-1	
Acu Int'l	0	54	12	55	55	55	-1	East Br	0.65	24	2051	95	95	95	-1	Lion Cpl	0	127	11	11	11	11	-1	Telesys	0	1065	0	0	0	0	-1	
Acu Int'l	0	54	12	55	55	55	-1	Edwards	0.23	12	163	163	163	163	-1	Lyon Cpl	21	16	163	15	15	15	-1	Thermos	0	32	104	104	104	104	-1	
Acu Int'l	0	54	12	55	55	55	-1	Edg Srv	14	1000	50	474	24	24	-1	MagneCpl	2	550	55	55	55	55	-1	Total Pat	0.80	12	170	144	144	144	-1	
Acu Int'l	0	54	12	55	55	55	-1	Edt Mid	1	13	1	1	1	1	-1	Macrose	16	36	115	115	115	115	-1	Total Pat	0.80	12	170	144	144	144	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fab Inds	0.80	12	5	124	24	24	-1	Media A	0.44	32	103	23	47	47	-1	Total Pat	0.80	12	170	144	144	144	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fabs Inc	1.28	10	11	75	75	75	-1	Media B	3	5	47	47	47	47	-1	Total Pat	0.80	12	170	144	144	144	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fabre IJ	0.45	12	20	194	194	194	-1	Media C	0.44	10	372	92	92	92	-1	Total Pat	0.80	12	170	144	144	144	-1	
Acu Int'l	0	54	12	55	55	55	-1	Farcom	0.5	145	389	389	389	389	-1	Medic Sf	15	372	92	92	92	92	-1	Total Pat	0.80	12	170	144	144	144	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity	12	1902	15	15	8	8	-1	Mech A	0.40	17	94	12	165	165	-1	Total Pat	0.80	12	170	144	144	144	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Ls	5	15	5	5	5	5	-1	Mech B	9	15	85	85	85	85	-1	Total Pat	0.80	12	170	144	144	144	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity M	1.06	12	133	15	15	15	-1	Mech C	25	133	15	15	15	15	-1	Total Pat	0.80	12	170	144	144	144	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nabors	16	807	8	8	8	8	-1	Unicorn	0	0	0	0	0	0	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	New Line	17	104	105	105	105	105	-1	Unicross	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	NY Times	0.58	32	104	22	22	22	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nicke Ds	40	28	34	34	34	34	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nicke Ds	40	28	34	34	34	34	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nicke Ds	40	28	34	34	34	34	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nicke Ds	40	28	34	34	34	34	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nicke Ds	40	28	34	34	34	34	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nicke Ds	40	28	34	34	34	34	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nicke Ds	40	28	34	34	34	34	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nicke Ds	40	28	34	34	34	34	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nicke Ds	40	28	34	34	34	34	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nicke Ds	40	28	34	34	34	34	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nicke Ds	40	28	34	34	34	34	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nicke Ds	40	28	34	34	34	34	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nicke Ds	40	28	34	34	34	34	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	55	55	55	-1	Fidelity Auct	1.06	12	133	15	15	15	-1	Nicke Ds	40	28	34	34	34	34	-1	Uniroad	0	4	4	4	4	4	-1	
Acu Int'l	0	54	12	5																												

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FINANCIAL TIMES
EUROPE'S BUSINESS NEWSPAPER

MONDAY PROFILE

Monetarist hard man in waiting

David Marsh on Helmut Schlesinger, president-elect of the Bundesbank

Mr Helmut Schlesinger, who becomes president of the German Bundesbank next month, slops his way every day up 12 flights of stairs to his office in the central bank's Frankfurt headquarters.

From the Bundesbank's wide vista windows, surveying a motley collection of football pitches and hunkering skyscrapers, Mr Schlesinger likes to observe the nesting habits of the local birdlife. It may be only a coincidence, but he has noticed that, lately, hawks are roosting in the Bundesbank's 1950s concrete walls.

Mr Schlesinger is an active but ascetic 66-year-old who is taking over - at an age when most men have reached retirement - one of the most powerful and daunting jobs in international economic policy-making. He is stepping into the limelight vacated by Mr Karl Otto Pöhl, holder of the top Bundesbank job since 1980, who in May decided to step down for a mixture of reasons, including unease over the government's economic policies towards east Germany.

Mr Schlesinger's most abiding characteristic is his stamina, his obduracy and his extraordinarily strong bonds to the German central banking habitat which has been his home since 1962. As reunited Germany tussled with economic turbulence of a kind unseen in two post-war generations, all three traits will be put severely to the test.

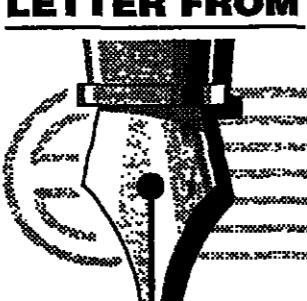
The Bundesbank's vice-president since 1980, and equipped since 1986 with an honorary professorship, Mr Schlesinger personifies in almost caricatural form the Bundesbank's fabled commitment to financial stability. He has been 19 years on the Bundesbank's policy-making central council, and for eight years before that was the bank's chief economist.

In private conversation he is an acute listener and can demonstrate amiability and Bavarian charm. His public image is that of an austere monetarist devoted - a combination of Doctor Strangelove and Doktor Allwissen, the all-knowing Grimm fairy-tale figure.

His espousal of tight money policies places him in the unique position of having been blamed, slightly absurdly, by the Reagan administration for precipitating the stock market crash of 1987, and by the opposition Social Democrats in Bonn for helping bring down the government of Chancellor Helmut Schmidt in 1982.

Mr Hans Matthöfer, the former SPD finance minister,

LETTER FROM



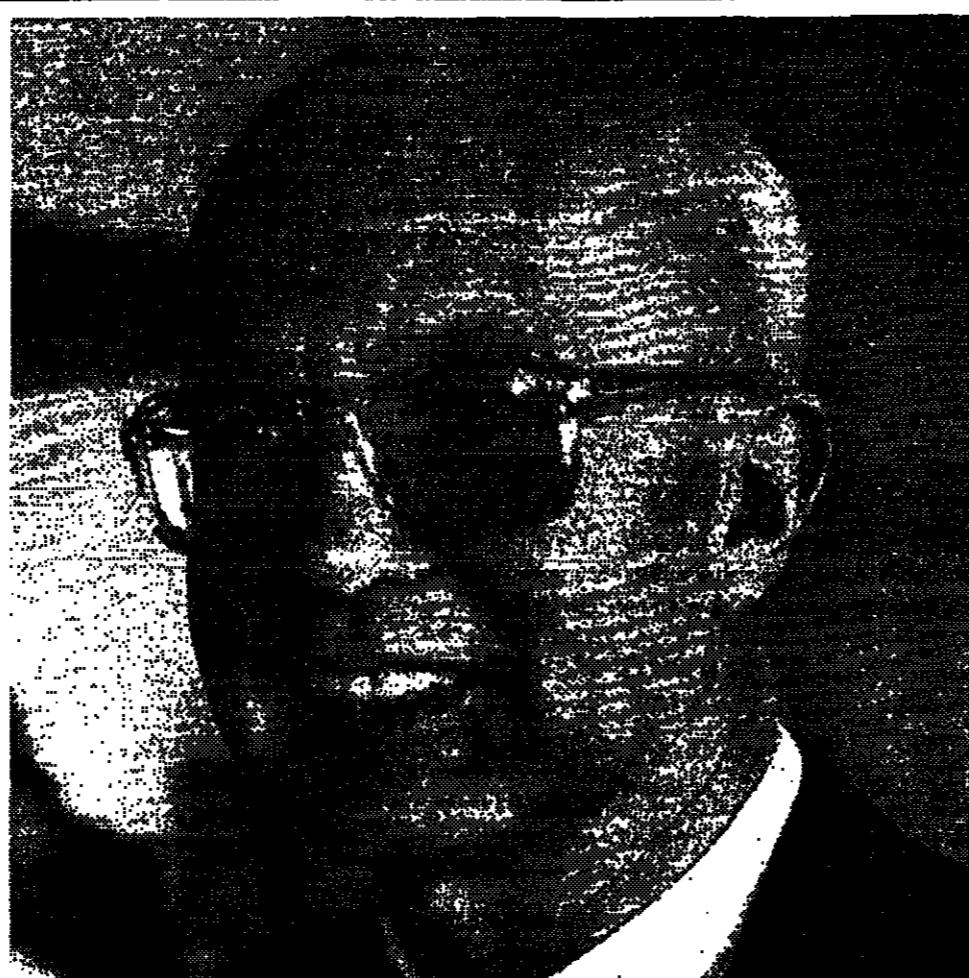
CZECHOSLOVAKIA

Eighteen months ago the Czechoslovak Communist party was swept from power in the first free elections since 1945. Now the party and its many secret sympathisers still in positions of power and influence are looking with new hope to the elections due next summer. Although President Vaclav Havel's lofty ideals are much admired, the love and peace which radiate from Prague castle, his official residence, do not seem to have permeated the politics and daily life of the country. Almost 50 years of totalitarian rule have exerted a more pervasive psychological effect than outside observers imagined. Czech and Slovaks appear to have forgotten not only about the market economy, but about the art of democratic politics as well.

Civic Forum, which emerged as the only organised political force of the "Velvet Revolution" of 1989, is divided and a plethora of small, poorly-disciplined parties is making it difficult for the government to carry out its legislative programme.

President Havel and those around him seem mainly concerned with the arts and foreign policy, leaving economics to Mr Václav Klaus, the federal minister of finance and head of the Liberal Democrats who split away from Havel's Civic Forum. Klaus is eliminating Havel's men from government and the Civil Service, and has become the dominant figure whom few dare to criticise publicly.

Smarter observers see Mr Klaus as a well-intentioned doctrinaire who replaced the idols of Marx and Lenin with free-marketeers such as Fried-



Tony Andrews

recalls stimulating exchanges with Mr Schlesinger about bringing down the budget deficit, but calls him the Bundesbank's "real hard man".

Mr Schmidt says: "He has very good manners, but it is very difficult to move him." Clearly ranking with the former chancellor is not only Mr Schlesinger's controversial interest rate role in the early 1980s, but also his pronounced scepticism on Mr Schmidt's goal of European Monetary Union (emu). "Emu is a first-class economist, but also a German nationalist," says Mr Schmidt. "He will be more stubborn than Pöhl in standing up to the government."

Mr Karl Schiller, the former SPD economics minister who formally appointed Mr Schlesinger to the central bank council in 1982 agrees that Mr Schlesinger will be still tougher than Mr Pöhl on emu.

Giving what is gradually becoming a consensus German view spreading across party lines, Mr Schiller says of Mr Schlesinger's coolness towards emu: "I think that is good, one shouldn't go too quickly."

After the long years working his way up the Bundesbank apparatus, Mr Schlesinger never expected to take the top post. He had been due to retire on reaching the age of 65 in September 1992. Mr Pöhl informed him that he was stepping down early - four and a half years before the expiry of his term - on May 6 just one day before he told President Richard von Weizsäcker and Mr Theo Waigel, the finance minister, and 10 days before he officially informed the whole Bundesbank council and the outside world.

Mr Schlesinger's tenure has now been extended for one more year to give him two years in the top position, the statutory minimum for the presidency. It is both a benefit and a disadvantage that Mr Schlesinger arrives with his mind made up on key issues. "He doesn't have to do anything to fit into a fashion," says one Bundesbanker who knows him well.

On the other hand, the challenges ahead, ranging from the financing of unification to the emu negotiations and the still-unresolved dispute over slimming down the Bundesbank's council, will almost certainly make the tenure unsatisfactory short.

Like Mr Pöhl when he took over the presidency in 1980, Mr Schlesinger arrives with inflation on the rise, the budget in disarray and the current

account in deficit. Overall compared with 1980, the problems are much greater, and Mr Schlesinger will have considerably less time to try to sort them out.

In their personalities, the two men are near-opposites. During their 11½ years in tandem, Mr Pöhl and Mr Schlesinger surmounted initial differences and built up a good working relationship. But it was founded on mutual understanding of each other's shortcomings, as well as on respect.

Mr Schlesinger showed impressive loyalty to a man five years his junior, and never issued any direct challenge to Mr Pöhl's authority. But he showed every sign of enjoying

PERSONAL FILE

1924 Born in Penzberg.
1949 Joined IFO economics research institute in Munich.

1952 Joined Bank Deutscher Land, the forerunner of the Bundesbank.

1954 Head of Bundesbank's economics and statistics department.

1972 Becomes member of Bundesbank directorate.

1980 Appointed Bundesbank vice-president.

1990 Becomes Bundesbank president.

the Number One spot whenever Mr Pöhl was off on a foreign trip or on holiday.

Mr Pöhl possesses a beguilingly un-Germanic easy-going air - which can mask a good deal of inner turmoil - and affects sometimes exaggerated disdain for the formality of a central banker's life. Mr Schlesinger, however, is probably the more rounded personality, partly a result of his less disturbed family background. One of Mr Schlesinger's daughters and her husband still keep going the family glass and porcelain business in his home town of Penzberg in southern Bavaria.

Mr Schlesinger has just one vote, like everyone else. The diplomatic Mr Pöhl proved mainly adept at steering the disparate and sometimes highly egocentric council. The general view of Mr Schlesinger is that he will be more heavy-handed. One Land central bank president, although an admirer of Mr Schlesinger's abilities, says: "We will no longer have a president who smooths out disagreements."

According to one associate, Mr Schlesinger fully realises that, in his new job, he will have to be more conciliatory in

paralysing effect on the large enterprises which, in preparation for privatisation, were transformed into independent state enterprises. The state transferred the fixed assets but, as wage control keeps incomes low, consumer purchases have been drastically reduced. The result is that agricultural co-operatives cannot sell their products - milk and beef in particular. Farmers are threatening to blockade roads to Prague.

Critics also attack the introduction of internal convertibility for the Czech crown. All foreign currency proceeds have to be offered to the State Bank while enterprises can deal with foreign suppliers of goods and services, and obtain foreign currency from the State Bank to settle accounts. The policy is admirable. The error was to devolve the crown to the prevailing black market level.

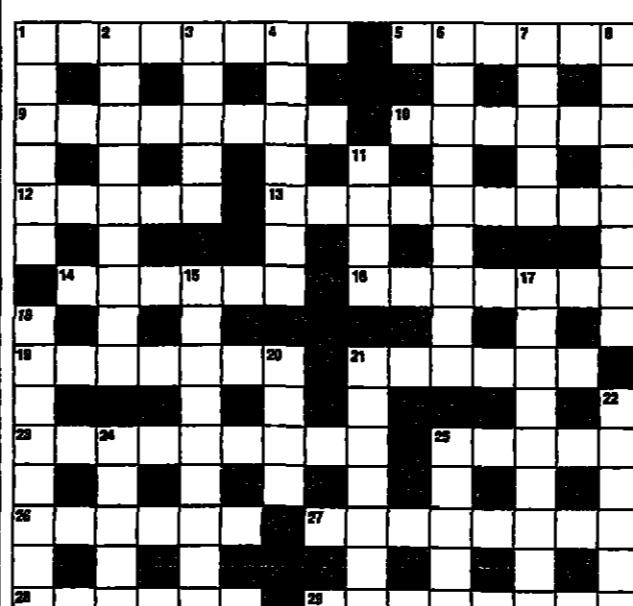
The outward result of this radical devaluation to about 50 crowns to the pound sterling is a flood of Austrian and German day trippers who can feast and drink at about a quarter of the price they would have to pay at home. The less-obvious effect is that the Germans are buying up houses and other property through local nominees at substantially less than a fair market price.

The undervaluation of the crown also has a negative effect on Czech industry by creating a barrier to imports and an export subsidy for its low-quality products. Not only western consumer products are bartered but also machinery and equipment needed to increase industrial efficiency.

Privatisation of retail trade and small businesses is under way but interest rates of more than 20 per cent are having a

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ACROSS

- Settler needing to stop its spread (6)
- Yarn of the seashore (6)
- Girl showing discretion (8)
- Soldier in Spanish city or several in ancient Rome (6)
- Tantalise by fumbling a set point (5)
- Unwise to give child coarse book (9)
- Where saint got out gift (6)
- Win seat back without flatters (7)
- Venetian moneylender chary with ruby player (7)
- Has visions about water-containers (6)
- Sketch at bottom of page of dog with disreputable woman (4-5)
- Flower of mixed colour it is said (5)
- Scamp being given some extra scales (6)
- Drinks giving urge to take pleasure-flights (3-5)
- Savage-sounding yarn (6)
- They bear responsibility for deposit in river (6)

DOWN

- Cloak for a writer (6)
- Expressing praise for archbishop - a right-winger (9)
- Relative finding quarter in French town (5)
- Plan for small body of troops (7)
- Novel habitat for wild animals (3,6)
- Quicksilver island to a Frenchman (5)
- Old African Christian actor is leading tenor (8)
- Pick out precise place (4)
- Happened to capture town (4,5)
- Stall when it's time to get up (9)
- Secret imported by oriental drunkard to literary schoolboy (6)
- Eager to express sorrow (4)
- Ship sometimes having cargo of sugar (7)
- Delivers essential component of poetry perhaps (6)
- Point in dispute with children (5)
- Birds with frilly collars (5)

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